

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Gladwin</b>	County <b>Gladwin</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>12/1/04</b>	Date Accountant Report Submitted to State: <b>1/28/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name) <b>Page, Olson &amp; Company P.C., CPA's</b>			
Street Address <b>2865 South Lincoln Rd. - P.O. Box 368</b>	City <b>Mt. Pleasant</b>	State <b>MI</b>	ZIP <b>48804-0368</b>
Accountant Signature 		Date <b>1/28/05</b>	

# CITY OF GLADWIN

## GLADWIN, MICHIGAN

### COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended  
June 30, 2004

Issued By: Administrator's Office

# CITY OF GLADWIN

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

### YEAR ENDED JUNE 30 2004

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# CITY OF GLADWIN

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

### YEAR ENDED JUNE 30 2004

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# **INTRODUCTORY SECTION**



1000 West Cedar Ave. • Gladwin, Michigan 48624-1865  
Phone: (989) 426-9231 • FAX: (989) 426-6942

December 30, 2004

To The Citizens of the City of Gladwin,  
and Members of the City Council

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Gladwin for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Gladwin. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Gladwin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Gladwin's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Gladwin's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Gladwin's financial statements have been audited by Page, Olson & Company, P.C., CPA's, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Gladwin for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gladwin's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Gladwin was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in the compliance section of this report.



GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Gladwin's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The City of Gladwin, incorporated in 1893, is located in the central part of Michigan's lower peninsula. The City of Gladwin is the county seat and largest of only two cities within Gladwin County and has a population of approximately 3,030. Gladwin serves as the primary commercial center, health care services provider and government center for the County's 26,000 permanent residents. Recreation and tourism play a large part in the City's overall economy. The summer population of the County is estimated to be in excess of 50,000 as southeastern Michigan metropolitan area residents flock to their summer cottages along the waterways of the County. This summer population carries well into the fall as hunters take to the county's expansive wooded areas, which are primarily State owned lands. The City of Gladwin currently occupies a land area of 3.75 square miles. The City is empowered to levy a property tax on both real and personal properties located within its boundaries.

The City of Gladwin operates under a "council-manager" form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and eight other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's administrator, clerk, assessor, treasurer and attorney. The government's administrator is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis on odd numbered years. Council members serve four-year staggered terms, with four council members elected every two years.

The City of Gladwin provides a full range of services, including police protection; the construction and maintenance of highways, streets and other infrastructure; recreational activities and cultural events; and sanitation, water and sewer services. The City of Gladwin is also financially accountable for a legally separate airport which is reported separately within the City's financial statements. Additional information on this and other legally separate entities can be found in Note 1A in the notes to the financial statements.

The council adopts an annual budget. The annual budget serves as a foundation for the City of Gladwin's financial planning and control. Additional discussion of the budget process and legal control levels can be found in Note 2 in the notes to the financial statements. Budget comparisons for governmental funds can be found in the Supplemental Data section of the report immediately following the notes to the financial statements.

## **Economic Conditions, Outlook and Major Initiatives**

While the City of Gladwin and Gladwin County have always lagged behind a general rise in economic activity in the State of Michigan, we have been encouraged in 2004 with the opening of Riverwalk in our commercial district, and Packaging Direct's consolidation of its operations to our industrial park. The Riverwalk project created approximately 80 new retail jobs, and while not normally as well paying as those in the manufacturing sector, they were 80 new jobs that benefited those in our community without a job, or allowed some to improve their job situation. The additional 25 manufacturing jobs that Packing Direct will add to our employment base will help in recovering those lost when Simpson Industries moved their business operations.

The outlook for the City of Gladwin continues to improve. We received word at the end of 2004 that our Streetscape grant \$839,630 request was approved and will extend sidewalks, lighting and enhancement of M-61 from Bowery to M-18. Some of those enhancement previously completed assisted the City in having a developer look to locate an assisted living facility at the western edge of our community. That project should begin in 2005. We are also entertaining an inquiry from another Gladwin County business who is expanding, to consider locating in our industrial park.

Our major initiative beyond the completion of the Beech Street reconstruction to eliminate another portion of combined sewers, will be review of our major sidewalk thoroughfares, review of our City's Master Plan and zoning ordinance, and hiring of a new City Manager.

### **Cash Management**

During the year, idle cash was invested in demand deposits, MBIA Class Investment Pool, Bank Investment Funds, and government securities. The City's policy is to maintain a competitive yield on its portfolio while minimizing market risk. Accordingly, deposits were either insured by the Federal Deposit Insurance Corporation or Government-backed wherever possible. Pooled cash and investment earnings for Fiscal Year 2003-2004 were \$13,455.

### **Risk Management**

Since 1991, the City has been a member of the Michigan Municipal Liability and Property Pool, a self insurance risk association operating under the authority of Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk fund which provides the member loss protection for general and auto liability, motor vehicle physical damage and property protection. Contributions are applied to the procurement of re-insurance, risk management, underwriting, payment of claims, establishment of loss reserves and other related expenses.

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

### **Pension Plan**

The Mayor, members of City Council and all full time city employees are covered by pension plans. A complete review of all pension plans is presented in Note 11 in the notes to the financial statements.

### **GASB 34**

Over the past year a significant focus has been placed on GASB No. 34. This new financial reporting model represents the biggest single change in the history of governmental accounting and financial reporting. It affects all state and local governments that issue financial reports in conformity with generally accepted accounting principles. Significant staff time and resources have been directed toward full compliance and implementation. Tasks such as capturing existing infrastructure information, modifications of reporting formats, and creation of prior years financial reports under GASB No. 34 for comparison purposes were completed during this fiscal year.



## **Awards**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gladwin for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the tenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the City Treasurer, Elizabeth A. Barnebee and staff. We would also like to express appreciation to the staff of Page, Olson and Company, P.C. CPA's for their contributions to the excellence of this report. Credit also must be given to the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Gladwin's finances.

Respectfully submitted,



Thomas L. Winarski  
Mayor

# CITY OF GLADWIN

## OFFICIALS

Thomas L. Winarski  
Mayor

### Council

Polly Alward  
John Caffrey  
David Crawford  
Thomas Hindman

Darlene Jungman  
Thomas Mienk  
Vee Novak  
Michael Smith

### Administration

Robert McConkie  
City Administrator

Elizabeth Barnebee  
Treasurer

Douglas Jacobson  
Attorney

Charles Jones  
Police Chief

Bernadette Weaver  
Assessor

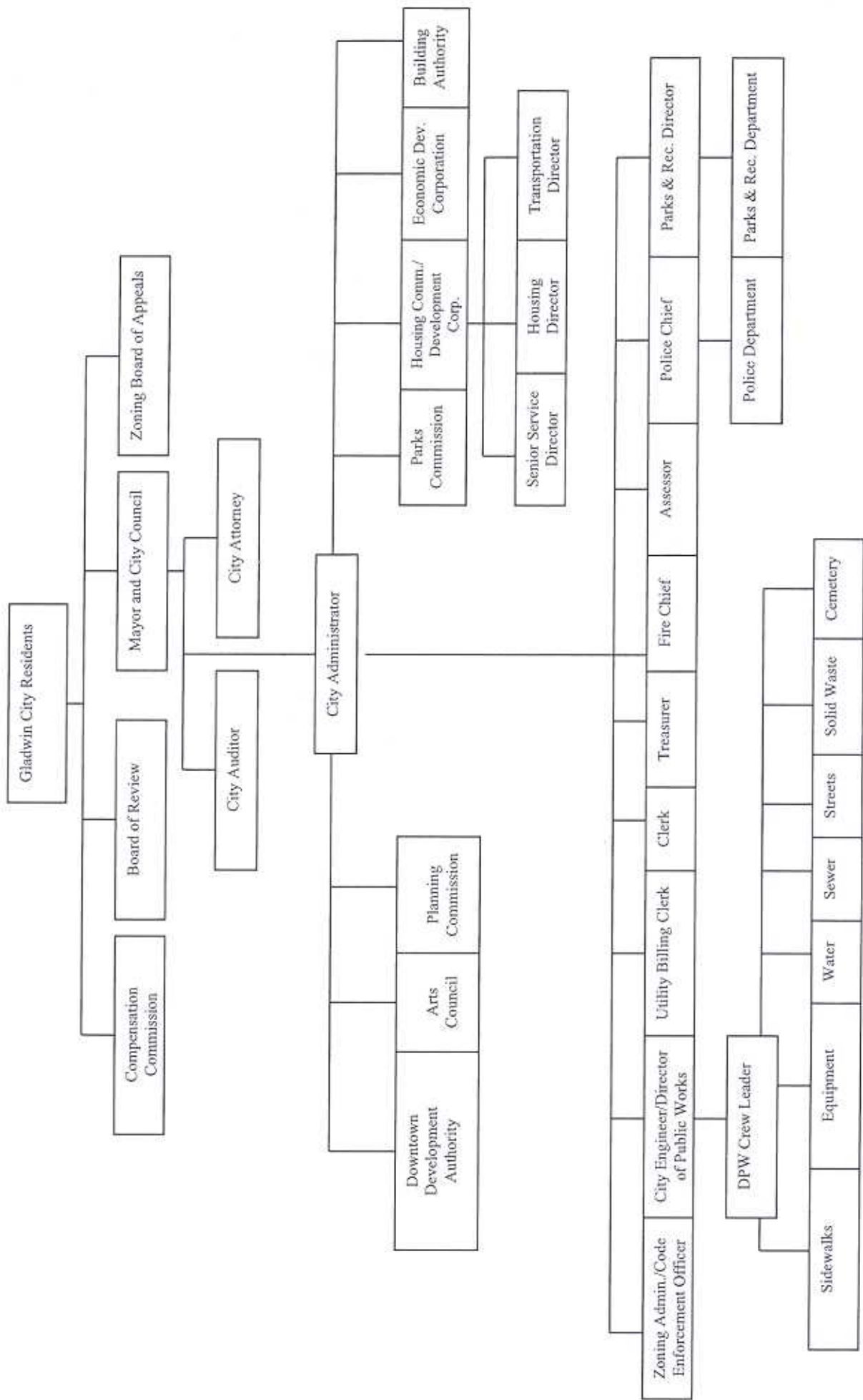
Shannon Greaves  
Clerk

James Chasteen  
Parks & Recreation Director

George Alward  
Fire Chief

Sheila Hall  
Housing Director

# City of Gladwin Organizational Chart



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gladwin,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Emer*

Executive Director

# **FINANCIAL SECTION**





PAGE

OLSON &amp;

COMPANY P.C.

## INDEPENDENT AUDITOR'S REPORT

December 1, 2004

City Council  
City of Gladwin  
Gladwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gladwin, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladwin, Michigan's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gladwin, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2004, on our consideration of the City of Gladwin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing standards and should be read in conjunction with this report inconsidering the results of our audit.

City Council  
City of Gladwin  
Gladwin Michigan

The management's discussion and analysis and budgetary comparison information on pages 15 through 22 and 59, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladwin, Michigan's basic financial statements. The introductory section, required supplemental, other supplemental information, statistical tables and compliance section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information relative to June 30, 2004 and for the year then ended has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Page, Olson & Company*



## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Gladwin, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Gladwin for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 6 of this report. All amounts, unless otherwise indicated, are presented in whole

### **Financial Highlights**

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,624,666 (net assets). Of this amount, \$ 2,192,927 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The government's total net assets increased by \$248,825. This increase was primarily due to substantial capital grants that provided funding for infrastructure and recreation facility projects.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,104,186, an increase of \$689,669 in comparison with the prior year. This is primarily due to the issuance of bonds close to year end in which the related capital projects are just getting underway. Approximately \$687,458 of this total amount is available for spending at the government's discretion (unreserved-undesignated fund balance).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$541,380 or approximately 30 percent of total general fund expenditures.

The City's total debt increased by \$997,500 (31 percent) during the current fiscal year. The key factor in this increase was the issuance of \$1,250,000 in general obligation bonds for infrastructure improvements that will be accounted for in the Downtown Development Project Fund.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction of the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).



## CITY OF GLADWIN

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health & welfare, recreation & culture, and Debt Service. The business-type activities of the City include the Ice Arena and the Water and Sewer operations.

The government wide financial statements include not only the City itself (known as the primary government), but also the legally separate Downtown Development Authority, Economic Development Corporation and the Gladwin Airport for which the City is financially accountable. Financial information presented for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 24 and 25 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the two capital projects funds, the Industrial Park Expansion Project and the Downtown Development Project, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

The City adopts an annual appropriated budget for its general fund and all special revenue fund types. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found on pages 26 through 29 of this report.



## CITY OF GLADWIN

### MANAGEMENT'S DISCUSSION AND ANALYSIS

**Proprietary funds.** The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Ice Arena, Sewer and Water operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because the services of the fund predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Ice Arena, Water and Sewer operations, all of which are considered to be major funds of the City. Also the internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 30 through 32 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. Currently the City has two funds that are agency type funds.

The basic fiduciary fund financial statements can be found on page 33 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on beginning on page 36 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with nonmajor governmental funds. Combining and individual fund statements and schedules can be found on pages 62 through 69 of this report. Additionally statistical data and compliance data are also included as described in the table of contents.

#### Government-wide Financial Analysis

The following summaries provide a perspective of the financial information of the city as a whole:

City of Gladwin's Net Assets.			
	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 3,111,198	\$ 973,647	\$ 4,084,845
Capital assets	6,284,452	6,021,082	12,305,534
Total assets	9,395,650	6,994,729	16,390,379
Long-term liabilities outstanding	2,753,066	1,423,846	4,186,912
Other liabilities	464,890	113,911	578,801
Total liabilities	3,227,956	1,537,757	4,765,713
Net assets:			
Invested in capital assets, net of related debt	3,521,386	4,597,236	8,118,622
Restricted	1,222,638	90,479	1,313,117
Unrestricted	1,423,670	769,257	2,192,927
Total net assets	\$ 6,167,694	\$ 5,456,972	\$ 11,624,666

# CITY OF GLADWIN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City of Gladwin's Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for Services	\$ 412,534	\$ 949,794	\$ 1,362,328
Operating grants and contributions	335,673	-	335,673
Capital Grants and contributions	574,445	-	574,445
General Revenues:			
Property taxes	979,228	-	979,228
Other	385,902	2,827	388,729
Total Revenues	2,687,782	952,621	3,640,403
Expenses:			
General Government	538,162	-	538,162
Public Safety	553,452	-	553,452
Public Works	1,001,554	-	1,001,554
Health and Welfare	596	-	596
Recreation and Culture	161,370	-	161,370
Interest and Fees on Long-Term Debt	90,372	-	90,372
Ice Arena		63,765	63,765
Sewer		488,357	488,357
Water		482,797	482,797
Total Expenses	2,345,506	1,034,919	3,380,425
Increase in net assets before transfers	342,276	(82,298)	259,978
Transfers	49,000	(60,153)	(11,153)
Increase in net assets	391,276	(142,451)	248,825
Net Assets - July 1	5,776,418	5,599,423	11,375,841
Net Assets - June 30	\$ 6,167,694	\$ 5,456,972	\$ 11,624,666

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Gladwin, assets exceeded liabilities by \$11,624,666 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (70 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (11 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$ 2,192,927) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. However, the City's discretely presented component units have a net deficit of available net assets of \$2,571 when combined.



## CITY OF GLADWIN

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The government's net assets increased by \$248,825 during the current fiscal year. Much of this increase can be contributed to the Capital Grants received for infrastructure and recreation facility improvements within governmental activities, as the business-type activities of the City reflect a net decrease in assets.

**Governmental activities.** Governmental activities increased the City's net assets by \$391,276. The key element of this increase as stated above was the influx of Capital Grants and Contributions that were used for Infrastructure improvements and recreation grounds and facility improvements. Absent this significant revenue source, the City would have experienced a decrease in the net assets provided by governmental activities.

**Business-type activities.** Business-type activities decreased the City's net assets by \$142,451. The key element of this decrease is with the Water Operations expenses being significantly higher than the user charges being received.

#### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,083,308, an increase of \$689,669 in comparison with the prior year. The key element of this increase can be attributed to the issuance of bonds just before year end. Approximately \$714,196 constitutes unreserved fund balance, which is available for spending at the government's discretion. However certain balances of this amount have been designated for use or savings for 1) police activities (\$3,903), 2) City Hall improvements (\$62,835), 3) emergency contingencies (\$5,000), and 4) cemetery care (\$20,878). The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to fund major capital project fund endeavors (\$1,124,708), 2) to pay debt service (\$112,781), 3) funds already spent for the ensuing fiscal year (\$9,571), 4) to generate income to pay for the perpetual care of the municipal cemetery (\$77,052), and 5) for long term advances to other funds (\$45,000).

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$496,380, while total fund balance reached \$550,951. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 27 percent of total general fund expenditures, while total fund balance represents 31 percent of that same amount.

The fund balance of the City's general fund decreased by \$187,368 during the current fiscal year. Key factors in this change are attributable to the City's investment in costs over grants available in the River Walk project to enhance the final project and to complete unanticipated project cost overruns.

The Industrial Park Expansion Project fund ended with a \$140,219 decrease in fund balance resulting in a fund deficit of \$140,210 for the year. This deficit will be recovered in the ensuing fiscal year as capital grants become available to fund the expenditures for improvements made during the current fiscal year.

The Downtown Development Project fund fund balance increased by \$1,124,708 during the fiscal year. This is a new fund and this increase is due primarily to the issuance of bonds just before year end with little capital expenses incurred for the current fiscal year.



## CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS

Significant Nonmajor Governmental fund decreases in fund balance occurred in the City's local and city street funds representing primarily an investment in street infrastructure improvements for the year.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Ice Arena, Sewer, and Water funds at the end of the year amounted to \$578, \$124,947, and \$320,376, respectively. The sewer fund experienced a net increase in assets of \$6,701 while the Ice Arena and Water funds experienced a net decrease in net assets of \$2,822 and \$154,819 respectively. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

The City attempted to amend the budget as it was apparent that original assumptions may not materialize as anticipated. Difference between the original budget and the final amended budget can be briefly summarized as follows:

Various adjustments were made to revenue. Major increases were made to Intergovernmental Revenue for the addition of federal and state grants applied for and/or awarded. Some of these were not fully spent or realized by year end thus causing the major differences between the final budget and actual figures. Other Revenue was increased due to new special assessment type contributing projects and increase in cost sharing/reimbursing projects entered into.

Anticipated expenditures were adjusted across the board to allow for interim increases in the cost of employee health insurance that occurred after the original budget was devised. Additional repair and maintenance type projects were undertaken in the areas of public safety and public works, some of which had corresponding increases in revenue as discussed above as the projects were cost sharing/reimbursing projects. The Legislative Activity was increased to allow for more training. The Recreation & Culture Activity was increased for enhancements to the River Walk Project, some of which resulted in a corresponding increase in the expected revenue from grants that was recorded as Intergovernmental Revenue.

### Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$12,305,534 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 1 percent (a 7 percent increase for governmental activities and a 4 percent decrease for business-type activities).

The City undertook a number of capital projects during the year. The most significant being the Riverwalk Parking Facility and related walkways which were funded through a combination of private, federal, state and City funds. Four airport runway improvement projects were completed during the year and one new project was started. These airport runway improvements were funded almost entirely by the federal government and the state is responsible for the administration of the projects. Various street improvement projects went on during the year as well. Towards year end the City issued bonds for a downtown development project which will improve infrastructure (streets, storm sewer separation, lagoon cleanup), this project is also being partially federally funded.

# CITY OF GLADWIN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City of Gladwin's Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 389,725	\$ 400,700	\$ 33,200	\$ 33,200	\$ 422,925	\$ 433,900
Construction in Progress	218,063	45,343	2,385,080	2,385,080	2,603,143	2,430,423
Land Improvements	430,795	137,533	18,341	21,518	449,136	159,051
Buildings	316,189	336,550	419,326	444,064	735,515	780,614
Building Improvements	40,512	46,497	-	-	40,512	46,497
Equipment and Vehicles	448,503	470,543	120,771	123,331	569,274	593,874
Infrastructure	4,440,665	4,449,411	3,044,364	3,270,495	7,485,029	7,719,906
Total	<u>\$ 6,284,452</u>	<u>\$ 5,886,577</u>	<u>\$ 6,021,082</u>	<u>\$ 6,277,688</u>	<u>\$12,305,534</u>	<u>\$ 12,164,265</u>

Additional information on the City's capital assets can be found in Note 5 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,228,500. Of this amount, \$2,778,500 comprises debt backed by the full faith and credit of the government and the remaining \$1,450,000 represents bonds secured solely by specified revenue sources.

### City of Gladwin's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 2,778,500	\$ 1,585,000	\$ 300,000	\$ 325,000	\$ 3,078,500	\$ 1,910,000
Revenue bonds	-	-	1,150,000	1,321,000	1,150,000	1,321,000
Total	<u>\$ 2,778,500</u>	<u>\$ 1,585,000</u>	<u>\$ 1,450,000</u>	<u>\$ 1,646,000</u>	<u>\$ 4,228,500</u>	<u>\$ 3,231,000</u>

The City's total debt increased by \$997,500. during the fiscal year. The key factor in this increase was a \$1,250,000 general obligation bond issue for the construction of various infrastructure that will be accounted for in the Downtown Development Project Fund.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed value of all real and personal property subject to taxation in the City. As of June 30, 2004, the City's direct and indirect debt of \$3,603,500 was below the legal limit of \$5,314,392.

Additional information on the City's long-term debt can be found in Note 6 of this report.



## **CITY OF GLADWIN MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Economic Factors and Next Year's Budgets and Rates.**

Next year's budget will again be limited to the maintenance of existing services with an eye to keeping increases in departmental budgets to a minimum. The uncertainty of a stable number for revenue sharing from the State of Michigan has encouraged the council to keep a tight budget until we can be certain of availability of funds. We continue to seek out federal and state funding so that we can move forward with infrastructure improvements and continue to meet the needs of the community without having to significantly increase rates and charges to provide services.

In order to increase accountability and arm ourselves with the tools necessary to adequately project when changes are needed in funding levels, we are implementing new budget and cost monitoring procedures to better analyze our revenues and costs.

### **Requests for information.**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer's office.

# **BASIC FINANCIAL STATEMENTS**

**CITY OF GLADWIN  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Statement I**

	Primary Government			
	Governmental	Business-type		Component
	Activities	Activities	Total	Units
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash & Investments	\$ 2,247,362	\$ 541,475	\$ 2,788,837	\$ 137,835
Taxes Receivable	82,953	-	82,953	-
Accounts Receivable	67,182	86,214	153,396	1,159
Due from Other Governments	629,461	-	629,461	
Deferred Charges	10,370	-	10,370	13,333
Internal Balances	18,095	8,489	26,584	-
Inventories	-	19,974	19,974	18,786
Prepaid Expenditures	10,775	2,628	13,403	3,983
Total Current Assets	3,066,198	658,780	3,724,978	175,096
<b>Noncurrent Assets</b>				
Internal Balances	45,000	314,867	359,867	-
Capital Assets - Net of Depreciation	6,284,452	6,021,082	12,305,534	1,250,728
Total Noncurrent Assets	6,329,452	6,335,949	12,665,401	1,250,728
<b>TOTAL ASSETS</b>	<b>9,395,650</b>	<b>6,994,729</b>	<b>16,390,379</b>	<b>1,425,824</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	350,096	90,640	440,736	1,779
Accrued Liabilities	73,666	10,584	84,250	-
Internal Balances	8,489	-	8,489	18,095
Deferred Revenue	2,421	-	2,421	-
Accrued Interest Payable	30,218	12,687	42,905	5,027
Long-Term Debt Due within One Year	56,500	30,000	86,500	125,000
Total Current Liabilities	521,390	143,911	665,301	149,901
<b>Noncurrent Liabilities</b>				
Internal Balances	-	-	-	359,867
Long-Term Debt Due in more than One Year	2,706,566	1,393,846	4,100,412	392,000
Total Noncurrent Liabilities	2,706,566	1,393,846	4,100,412	751,867
<b>TOTAL LIABILITIES</b>	<b>3,227,956</b>	<b>1,537,757</b>	<b>4,765,713</b>	<b>901,768</b>
<b>NET ASSETS</b>				
Invested in Capital assets, net of related debt	3,521,386	4,597,236	8,118,622	1,250,728
Restricted for:				
Debt Service	-	90,479	90,479	20,593
Capital Projects	1,124,708	-	1,124,708	-
Permanently - Cemetery Perpetual Care	77,052	-	77,052	-
Temporarily - Cemetery Perpetual Care	20,878	-	20,878	-
Donor Restrictions	-	-	-	940
Unrestricted Net Assets	1,423,670	769,257	2,192,927	(748,205)
<b>TOTAL NET ASSETS</b>	<b>\$ 6,167,694</b>	<b>\$ 5,456,972</b>	<b>\$ 11,624,666</b>	<b>\$ 524,056</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

**Statement II**

Functions/Programs:	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government		Component	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Units Total
<b>Primary Government:</b>							
Governmental Activities							
General Government	\$ 538,162	\$ 93,932	\$ -	\$ -	\$ (444,230)	\$ (444,230)	
Public Safety	553,452	77,824	69,361	-	(406,267)	(406,267)	
Public Works	1,001,554	173,414	262,751	466,678	(98,711)	(98,711)	
Health and Welfare	596	1,950	-	-	1,354	1,354	
Recreation and Culture	161,370	65,414	3,561	107,767	15,372	15,372	
Interest and Fees on Long-Term Debt	90,372	-	-	-	(90,372)	(90,372)	
Total Governmental Activities	2,345,506	412,534	335,673	574,445	(1,022,854)	(1,022,854)	
<b>Business-type Activities</b>							
Ice Arena	63,765	60,479	-	-	(3,286)	(3,286)	
Sewer	488,357	500,779	-	-	12,422	12,422	
Water	482,797	388,536	-	-	(94,261)	(94,261)	
Total Business-type Activities	1,034,919	949,794	-	-	(85,125)	(85,125)	
<b>Component Units</b>							
Downtown Development Authority	41,805	-	-	-	-	-	(41,805)
Economic Development Corp	-	-	-	-	-	-	-
Gladwin Airport	98,560	35,825	30,000	310,071	277,336	277,336	
Total Component Units	140,365	35,825	30,000	310,071	235,531	235,531	
<b>General Revenues:</b>							
Property Taxes					979,228	-	-
Captured Tax Increments					-	-	314,907
Revenue Sharing					347,306	-	-
Interest Earnings					11,515	2,665	14,180
Miscellaneous					27,081	162	2,439
Total General Revenues					1,365,130	2,827	317,889
Transfers					49,000	(60,153)	11,153
Total General Revenue and Transfers					1,414,130	(57,326)	329,042
<b>Changes in Net Assets</b>					391,276	(142,451)	248,825
<b>Net Assets - July 1</b>					5,776,418	5,599,423	11,375,841
<b>Net Assets - June 30</b>					<u>\$ 6,167,694</u>	<u>\$ 5,456,972</u>	<u>\$ 11,624,666</u>
							<u>\$ 524,056</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2004**

**Statement III**

	General	Industrial Park Expansion Project	Downtown Development Project	Other Nonmajor Governmental	Total Governmental
<b>ASSETS</b>					
Cash & Investments	\$ 359,309	\$ 75,574	\$ 1,163,463	\$ 551,845	\$ 2,150,191
Taxes Receivable	46,143	-	-	18,648	64,791
Accounts Receivable	62,455	-	-	-	62,455
Due from Other Governments	128,262	119,979	339,099	42,121	629,461
Due from Component Units	6,040	-	-	-	6,040
Prepaid Expenditures	9,571	-	-	-	9,571
Long-Term Advance to Component Unit	45,000	-	-	-	45,000
<b>TOTAL ASSETS</b>	<b>\$ 656,780</b>	<b>\$ 195,553</b>	<b>\$ 1,502,562</b>	<b>\$ 612,614</b>	<b>\$ 2,967,509</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 29,742	\$ 215,784	\$ 38,755	\$ 64,755	\$ 349,036
Accrued Liabilities	73,666	-	-	-	73,666
Deferred Revenue	2,421	119,979	339,099	-	461,499
<b>TOTAL LIABILITIES</b>	<b>105,829</b>	<b>335,763</b>	<b>377,854</b>	<b>64,755</b>	<b>884,201</b>
<b>FUND BALANCE (Deficit)</b>					
Reserved for:					
Prepaid Expenditures	9,571	-	-	-	9,571
Advances	45,000	-	-	-	45,000
Capital Projects	-	-	1,124,708	-	1,124,708
Debt Service	-	-	-	112,781	112,781
Cemetery Perpetual Care	-	-	-	77,052	77,052
Unreserved, reported in:					
General Fund	496,380	-	-	-	496,380
Special Revenue Funds	-	-	-	337,148	337,148
Capital Projects Funds	-	(140,210)	-	-	(140,210)
Permanent Fund	-	-	-	20,878	20,878
<b>TOTAL FUND BALANCE</b>	<b>550,951</b>	<b>(140,210)</b>	<b>1,124,708</b>	<b>547,859</b>	<b>2,083,308</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 656,780</b>	<b>\$ 195,553</b>	<b>\$ 1,502,562</b>	<b>\$ 612,614</b>	<b>\$ 2,967,509</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
GOVERNMENTAL FUNDS  
RECONCILIATION OF FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Statement IV**

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance of Governmental Funds (Statement III)	\$ 2,083,308
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,826,033
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	459,078
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	430,127
Long-term Liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,661,326)
Certain receivables are expected to be collected over time in governmental activities are not considered available to pay for current year expenditures in the funds.	20,104
Charges deferred to future periods in the governmental activities are not reported in the funds.	<u>10,370</u>
Net Assets of Governmental Activities (Statement I)	<u><u>\$ 6,167,694</u></u>

**CITY OF GLADWIN  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004**

Statement V

	General	Industrial Park Expansion Project	Downtown Development Project	Other Nonmajor Governmental	Total Governmental
<b>REVENUE</b>					
Taxes	\$ 727,152	\$ -	\$ -	\$ 233,500	\$ 960,652
Licenses and Permits	28,477	-	-	-	28,477
Intergovernmental Revenue	463,067	60,086	-	258,736	781,889
Charges for Services	219,392	-	-	20,151	239,543
Fines and Forfeitures	30,778	-	-	-	30,778
Interest and Rentals	9,296	312	-	4,868	14,476
Other Revenue	137,495	-	-	3,160	140,655
<b>TOTAL REVENUE</b>	<b>1,615,657</b>	<b>60,398</b>	<b>-</b>	<b>520,415</b>	<b>2,196,470</b>
<b>EXPENDITURES</b>					
Legislative	63,121	-	-	-	63,121
General Government	443,630	-	-	-	443,630
Public Safety	557,818	-	-	-	557,818
Public Works	408,241	-	-	288,918	697,159
Health & Welfare	596	-	-	-	596
Recreation & Culture	330,619	-	-	19,804	350,423
Debt Service	-	-	-	118,017	118,017
Capital Projects	-	200,617	414,421	-	615,038
<b>TOTAL EXPENDITURES</b>	<b>1,804,025</b>	<b>200,617</b>	<b>414,421</b>	<b>426,739</b>	<b>2,845,802</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(188,368)</b>	<b>(140,219)</b>	<b>(414,421)</b>	<b>93,676</b>	<b>(649,332)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond Proceeds	-	-	1,250,000	-	1,250,000
Transfers In	40,000	-	289,129	94,000	423,129
Transfers Out	(9,000)	-	-	(295,128)	(304,128)
Transfers to Component Units	(30,000)	-	-	-	(30,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,000</b>	<b>-</b>	<b>1,539,129</b>	<b>(201,128)</b>	<b>1,339,001</b>
<b>NET CHANGE IN FUND</b>	<b>(187,368)</b>	<b>(140,219)</b>	<b>1,124,708</b>	<b>(107,452)</b>	<b>689,669</b>
<b>Fund Balance - Beginning</b>	<b>738,319</b>	<b>9</b>	<b>-</b>	<b>655,311</b>	<b>1,393,639</b>
<b>Fund Balance - Ending</b>	<b>\$ 550,951</b>	<b>\$ (140,210)</b>	<b>\$ 1,124,708</b>	<b>\$ 547,859</b>	<b>\$ 2,083,308</b>

The notes to the financial statements are an integral part of this statement.



**CITY OF GLADWIN  
GOVERNMENTAL FUNDS  
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2004**

**Statement VI**

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds (Statement V)	\$ 689,669
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$935,872) exceeded depreciation (\$487,758) in the current period.	448,114
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	15,173
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.	35,000
Interest payable on long-term debt is recorded when due in the statement of activities and when paid in governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of these long-term debt and related items.	(2,556)
Bond Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(1,250,000)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue (expense) of certain activities of internal service funds is reported with governmental activities.	36,965
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>418,911</u>
Change in Net Assets of Governmental Activities (Statement II)	<u>\$ 391,276</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Statement VII**

	Busines -type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Ice Arena	Sewer	Water	Total	
<b>ASSETS</b>					
Current Assets					
Cash and Investments	\$ 101,137	\$ 74,158	\$ 366,180	\$ 541,475	\$ 97,171
Accounts Receivable	-	58,878	27,336	86,214	2,786
Due from Other Funds	-	-	-	-	12,055
Inventories	-	-	19,974	19,974	-
Prepaid Items	-	1,314	1,314	2,628	1,204
Total Current Assets	101,137	134,350	414,804	650,291	113,216
Noncurrent Assets					
Long Term Advance to Other Funds	-	-	314,867	314,867	-
Capital Assets					
Lease Receivable (Net of unearned lease income)	2,385,080	-	-	2,385,080	-
Land	-	37,700	90,824	128,524	24,840
Building and System	-	4,933,291	4,396,544	9,329,835	58,831
Machinery and Equipment	-	117,133	166,211	283,344	895,040
Less Accumulated Depreciation	-	(3,522,952)	(2,582,749)	(6,105,701)	(520,292)
Total Capital Assets Net of accumulated Depreciation	2,385,080	1,565,172	2,070,830	6,021,082	458,419
Total Noncurrent Assets	2,385,080	1,565,172	2,385,697	6,335,949	458,419
<b>TOTAL ASSETS</b>	<b>2,486,217</b>	<b>1,699,522</b>	<b>2,800,501</b>	<b>6,986,240</b>	<b>571,635</b>
<b>LIABILITIES</b>					
Current Liabilities					
Accounts Payable	-	635	90,005	90,640	1,061
Accrued Liabilities	-	6,568	4,016	10,584	-
Bonds Payable	-	25,320	4,680	30,000	-
Notes Payable	-	-	-	-	21,500
Accrued Interest Payable	10,080	2,200	407	12,687	3,458
Total Current Liabilities	10,080	34,723	99,108	143,911	26,019
Noncurrent Liabilities					
Bonds Payable (net of unamortized discounts)	1,123,846	227,880	42,120	1,393,846	-
Notes Payable	-	-	-	-	107,000
Total Noncurrent Liabilities	1,123,846	227,880	42,120	1,393,846	107,000
<b>TOTAL LIABILITIES</b>	<b>1,133,926</b>	<b>262,603</b>	<b>141,228</b>	<b>1,537,757</b>	<b>133,019</b>
<b>NET ASSETS</b>					
Invested in Capital assets, net of related debt	1,261,234	1,311,972	2,024,030	4,597,236	329,919
Restricted for Debt Service	90,479	-	-	90,479	-
Temporarily Restricted due to Long Term Nature	-	-	314,867	314,867	-
Unrestricted	578	124,947	320,376	445,901	108,697
<b>TOTAL NET ASSETS</b>	<b>\$ 1,352,291</b>	<b>\$ 1,436,919</b>	<b>\$ 2,659,273</b>	<b>5,448,483</b>	<b>\$ 438,616</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				8,489	
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>				<b>\$ 5,456,972</b>	

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

**Statement VIII**

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Ice Arena	Sewer	Water	Total	
<b>OPERATING REVENUES</b>					
Charges for Sales and Services	\$ 60,479	\$ 492,621	\$ 383,492	\$ 936,592	\$ 191,872
Other Miscellaneous	-	8,158	5,044	13,202	-
<b>TOTAL OPERATING REVENUE</b>	<b>60,479</b>	<b>500,779</b>	<b>388,536</b>	<b>949,794</b>	<b>191,872</b>
<b>OPERATING EXPENSES</b>					
Personnel Services	-	163,637	112,215	275,852	21,955
Supplies	-	38,997	139,163	178,160	30,854
Contracted Services & Other	2,240	101,510	82,513	186,263	20,556
Depreciation	-	155,985	125,301	281,286	67,620
<b>TOTAL OPERATING EXPENSES</b>	<b>2,240</b>	<b>460,129</b>	<b>459,192</b>	<b>921,561</b>	<b>140,985</b>
<b>OPERATING INCOME</b>	<b>58,239</b>	<b>40,650</b>	<b>(70,656)</b>	<b>28,233</b>	<b>50,887</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>					
Interest Earnings	464	125	2,076	2,665	1,488
Gain on Sale of Assets	-	-	162	162	8,383
Interest Expense	(61,525)	(16,074)	(11,248)	(88,847)	(8,304)
<b>NET NONOPERATING REVENUE (EXPENSES)</b>	<b>(61,061)</b>	<b>(15,949)</b>	<b>(9,010)</b>	<b>(86,020)</b>	<b>1,567</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(2,822)</b>	<b>24,701</b>	<b>(79,666)</b>	<b>(57,787)</b>	<b>52,454</b>
TRANSFERS IN	-	-	18,847	18,847	-
TRANSFERS OUT	-	(18,000)	(94,000)	(112,000)	(7,000)
<b>CHANGE IN NET ASSETS</b>	<b>(2,822)</b>	<b>6,701</b>	<b>(154,819)</b>	<b>(150,940)</b>	<b>45,454</b>
<b>NET ASSETS- Beginning</b>	<b>1,355,113</b>	<b>1,430,218</b>	<b>2,814,092</b>		<b>393,162</b>
<b>NET ASSETS- Ending</b>	<b>\$ 1,352,291</b>	<b>\$ 1,436,919</b>	<b>\$ 2,659,273</b>		<b>\$ 438,616</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				8,489	
<b>CHANGE IN NET ASSETS - Business-type Activities</b>				<b>\$ (142,451)</b>	

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004**

**Statement IX**

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Fund
	Ice Arena	Sewer	Water	Total	
<b>Cash Flows From Operating Activities</b>					
Receipts from customers and users	\$ 86,800	\$ 484,276	\$ 382,747	\$ 953,823	\$ -
Receipts from interfund services provided	-	-	114,044	114,044	190,452
Payments to suppliers	(28,561)	(141,487)	(140,779)	(310,827)	(52,298)
Payments to employees	-	(163,685)	(112,272)	(275,957)	(21,955)
Payments for interfund services used	-	(44,124)	-	(44,124)	-
Net cash provided (used) by operating activities	58,239	134,980	243,740	436,959	116,199
<b>Cash Flows From Non-Capital Financing Activities</b>					
Transfers to other funds	-	(18,000)	(75,153)	(93,153)	(7,000)
Advances to other funds	-	-	8,075	8,075	-
Net cash provided (used) by non-capital financing activities	-	(18,000)	(67,078)	(85,078)	(7,000)
<b>Cash Flows From Capital and Related Financing Activities</b>					
Purchases of capital assets	-	(7,870)	(16,810)	(24,680)	(93,975)
Principal paid on capital debt	1,046	(21,100)	(174,900)	(194,954)	(21,500)
Interest paid on capital debt	(61,525)	(13,977)	(10,842)	(86,344)	(4,846)
Proceeds from the sale of capital assets	-	-	162	162	28,457
Net cash provided (used) by capital and related financing activities	(60,479)	(42,947)	(202,390)	(305,816)	(91,864)
<b>Cash Flows From Investing Activities</b>					
Interest received	464	125	2,076	2,665	1,488
<b>Net increase in cash and cash equivalents</b>	<b>(1,776)</b>	<b>74,158</b>	<b>(23,652)</b>	<b>48,730</b>	<b>18,823</b>
<b>Cash and cash equivalents, July 1</b>	<b>102,913</b>	<b>-</b>	<b>389,832</b>	<b>492,745</b>	<b>78,348</b>
<b>Cash and cash equivalents, June 30</b>	<b>\$ 101,137</b>	<b>\$ 74,158</b>	<b>\$ 366,180</b>	<b>\$ 541,475</b>	<b>\$ 97,171</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>					
Operating income	\$ 58,239	\$ 40,650	\$ (70,656)	\$ 28,233	\$ 50,887
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	-	155,985	125,301	281,286	67,620
(Increase) decrease in accounts receivable	26,321	(16,501)	2,094	11,914	(2,428)
(Increase) decrease in due from other funds	-	-	114,044	114,044	1,000
(Increase) decrease in inventory	-	-	(7,881)	(7,881)	-
(Increase) decrease in prepaid expenses	-	(2)	(2)	(4)	8
Increase (decrease) in accounts payable	(26,321)	(980)	80,897	53,596	(888)
Increase (decrease) in due to other funds	-	(44,124)	-	(44,124)	-
Increase (decrease) in accrued liabilities	-	(48)	(57)	(105)	-
<b>Net cash provided (used) by operating activities</b>	<b>\$ 58,239</b>	<b>\$ 134,980</b>	<b>\$ 243,740</b>	<b>\$ 436,959</b>	<b>\$ 116,199</b>
<b>Noncash Investing, Capital , and Financing Activities</b>					
Capital asset trade-ins	\$ -	\$ -	\$ -	\$ -	\$ 22,497

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS**

**Statement X**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 3,737
Receivables	6,338
Prepaid Expenses	<u>33,239</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 43,314</u></b>
<b>LIABILITIES</b>	
Cash Overdraft	\$ 39,507
Due to or on behalf of Others	<u>3,807</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 43,314</u></b>

**CITY OF GLADWIN  
COMPONENT UNITS  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

Statement XI

	Downtown Development Authority	Economic Development Corporation	Gladwin Airport	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash & Investments	\$ 115,504	\$ 21,291	\$ 1,040	\$ 137,835
Accounts Receivable	-	-	1,159	1,159
Deferred Charges	13,333	-	-	13,333
Inventories	-	-	18,786	18,786
Prepaid Expenditures	-	-	3,983	3,983
Total Current Assets	128,837	21,291	24,968	175,096
<b>Noncurrent Assets</b>				
Capital Assets - Net of Depreciation	-	-	1,250,728	1,250,728
<b>TOTAL ASSETS</b>	<b>128,837</b>	<b>21,291</b>	<b>1,275,696</b>	<b>1,425,824</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	-	-	1,779	1,779
Internal Balances	-	-	18,095	18,095
Accrued Interest Payable	5,027	-	-	5,027
Long-Term Debt Due within One Year	125,000	-	-	125,000
Total Current Liabilities	130,027	-	19,874	149,901
<b>Noncurrent Liabilities</b>				
Internal Balances	359,867	-	-	359,867
Long-Term Debt Due in more than One Year	392,000	-	-	392,000
Total Noncurrent Liabilities	751,867	-	-	751,867
<b>TOTAL LIABILITIES</b>	<b>881,894</b>	<b>-</b>	<b>19,874</b>	<b>901,768</b>
<b>NET ASSETS</b>				
Invested in Capital assets, net of related debt	-	-	1,250,728	1,250,728
Restricted Net Assets				
for Debt Service	20,593	-	-	20,593
by Donor	-	-	940	940
	-	-	-	-
Unrestricted Net Assets	(773,650)	21,291	4,154	(748,205)
<b>TOTAL NET ASSETS</b>	<b>\$ (753,057)</b>	<b>\$ 21,291</b>	<b>\$ 1,255,822</b>	<b>\$ 524,056</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF GLADWIN  
COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

**Statement XII**

Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Economic Development Corporation	Gladwin Airport	Total
<b>Downtown Development Authority</b>							
Interest and Paying Agent Fees on Long-term Debt	\$ 41,805	\$ -	\$ -	\$ (41,805)	\$ -	\$ -	\$ (41,805)
<b>Economic Development Corporation</b>							
Operations	-	-	-	-	-	-	-
<b>Gladwin Airport</b>							
Operations	98,560	35,825	30,000	310,071	-	277,336	277,336
<b>TOTAL COMPONENT UNITS</b>	<b>140,365</b>	<b>35,825</b>	<b>30,000</b>	<b>310,071</b>	<b>(41,805)</b>	<b>277,336</b>	<b>235,551</b>
<b>General Revenues:</b>							
Captured Tax Increments				314,907	-	-	314,907
Interest Earnings				376	102	65	543
Miscellaneous				-	-	2,439	2,439
<b>Total General Revenues</b>				<b>315,283</b>	<b>102</b>	<b>2,504</b>	<b>317,889</b>
Transfers				(18,847)	-	30,000	11,153
<b>Total General Revenue and Transfers</b>				<b>296,436</b>	<b>102</b>	<b>32,504</b>	<b>329,042</b>
<b>Changes in Net Assets</b>				<b>254,631</b>	<b>102</b>	<b>309,840</b>	<b>564,573</b>
<b>Net Assets - July 1</b>				<b>(1,007,688)</b>	<b>21,189</b>	<b>945,982</b>	<b>(40,517)</b>
<b>Net Assets - June 30</b>				<b>\$ (753,057)</b>	<b>\$ 21,291</b>	<b>\$ 1,255,822</b>	<b>\$ 524,056</b>

The notes to the financial statements are an integral part of this statement.

# CITY OF GLADWIN

## NOTES TO THE FINANCIAL STATEMENTS

### JUNE 30, 2004

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Gladwin, Michigan have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

##### A. Reporting Entity

The City is organized under Michigan's Comprehensive Home Rule City Act. A nine member City Council is the governing body elected by the community at large. The Council appoints a City Administrator.

**Blended component units.** Certain component units, despite being legally separate from the City, are so intertwined with the City's operations that they are in substance, the same as the City. The City currently has no component units that warrant being included in the primary City operations.

**Discretely presented component units.** The following component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. They are the Downtown Development Authority (DDA), Gladwin Zettel Memorial Airport (Gladwin Airport) and the Economic Development Corporation (EDC).

The City appoints a voting majority and is able to impose its will on the DDA. It has incurred specific financial burdens in the form of G.O. Bonds and is responsible for compliance with federal grants received in conjunction with the DDA's projects. In accordance with Statement of Michigan Governmental Accounting and Auditing No. 5, the DDA has been discretely presented. The DDA does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

The City is a participant with Gladwin County in a joint venture to operate the Gladwin, Zettel Memorial Airport. The City and County equally appoint the board, however, the City is able to impose its will and has assumed the obligation to provide financial support to the Airport and to finance deficits as they occur. Thus, the Airport's financial statements are discretely presented as part of the City. The Airport does not issue any other formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.

The City appoints a voting majority of the EDC Board. The primary purpose of the EDC is to encourage and assist commercial enterprises to locate and expand facilities and services to the City and its residents. The purpose is accomplished by the EDC entering into lease contracts with commercial enterprises. In accordance with the terms of the lease contracts, the Corporation in conjunction with the City issues bonds and the commercial enterprise agrees to make lease payments in amounts equal to the bond principal plus interest. The bond proceeds are used to finance a project which will benefit the commercial enterprise. The bonds are payable from the net revenues derived from the project and are collateralized by a mortgage on the project and the lease contract. The EDC financial statements are discretely presented as part of the City. The EDC does not issue any formal financial statements except as contained in the City of Gladwin's Comprehensive Annual Financial Report.



**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation.**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**CITY OF GLADWIN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation. (continued)**

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The industrial park expansion project is one of the City's major capital project funds. It accounts for the construction of sewer and water line extensions and roads associated with the expansion of the City's Industrial Park. Governmental resources and state and federal grant revenues are expected to finance the expansion project.

The Downtown Development project fund is the City's other major capital project fund. It accounts for financial resources to be used for the acquisition or construction of major capital facilities, except for those financed by business-type/proprietary funds.

The City reports the following major proprietary funds:

The Ice Arena Fund accounts for the City's operation of the community Ice Arena.

The Sewer Fund accounts for the activities of collecting and treating waste waters.

The Water Fund accounts for the costs of providing water services to City residents.

Additionally, the City reports the following funds types:

Internal service fund accounts for fleet management services provided to other departments or agencies of the City on a cost reimbursement basis.

The Agency Fund accounts for assets held by the City acting as an agent for individuals and/or other funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments of utility charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including some special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.



**CITY OF GLADWIN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation. (continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the internal service fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**E. Assets, liabilities, and net assets or equity.**

**1) Cash, Cash Equivalents and Investments** - The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

**2) Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-side financial statements as "internal balances."

Advance between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Personal property taxes receivable is shown net of an allowance for uncollectible. Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The lien on the property occurs when the property taxes are levied (July 1).

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, liabilities, and net assets or equity. (continued)**

**3) Inventories and Prepaid Items** - Inventories are valued at cost using first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4) Restricted Assets** - Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**5) Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government wide financial statements. Capital assets are defined by the City as assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Land Improvements	20 years
Buildings	30 years
Storage Sheds	10 years
Building Improvements	10 years
Equipment - Heavy	20 to 30 years
Equipment - Light	5 to 10 years
Water and Sewer Lines	30 years
Storm Sewer	50 years
Disposal Systems	30 years
Roads	3 to 20 years
Other Infrastructure	10 to 50 years
Police Cruisers	5 years
Trucks	10 years
Tractors	5 years
Radio Equipment	5 years
Office Equipment	3 to 5 years



**CITY OF GLADWIN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**E. Assets, liabilities, and net assets or equity. (continued)**

**6) Compensated Absences (Vacation and Sick Leave)** - The City's policy allows employees to accumulate earned but unused vacation pay benefits. The government-wide and proprietary statements accrue all vacation benefits as they are earned. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of employment.

**7) Long-term Obligations** - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8) Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted for the general and all special revenue funds. The City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Budgets are prepared on a basis consistent with the accounting basis utilized by the fund. Public hearings are conducted to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council. The budget and approved appropriations lapse at the end of the fiscal year. The City does not maintain a formal encumbrance accounting system. The budgets are adopted on a functional basis. Expenditures may not legally exceed the budgeted amounts by function for these funds. The City Administrator may revise the budget to the extent that expenditures of a Department/Activity are not altered by an amount in excess of \$5,000. Any revisions that alter the total expenditures of the Department/Activity in excess of \$5,000 require approval by the Council. Comparisons to budget are presented as required by generally accepted accounting principles for all Governmental funds for which budgets were legally adopted. Budgets are adopted on a basis consistent with generally accepted accounting principles.

**CITY OF GLADWIN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)**

**B. Excess of expenditures over appropriations in budgetary funds.**

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Excess Expenditures</u>
<b>General Fund:</b>			
Legislative	\$ 62,225	\$ 63,121	\$ 896
Recreation & Culture	303,980	330,619	26,639

**C. Deficit fund equity**

The City has accumulated fund deficits in the following individual funds:

<b>Primary Government</b>		
Industrial Park Expansion Project - Capital Project Fund Type		\$ 140,210
<b>Component Units</b>		
Downtown Development Authority - Special Revenue Fund Type		753,057

Michigan Public Act 275 of 1980 requires that the City file a deficit elimination plan within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. This was not done in this specified time period.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Investments are carried at fair value and are deposited in the name of the City Treasurer. Public Act 196 of 1997 authorizes the City to deposit and invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States, in accounts of a financial institution, Commercial Paper, repurchase agreements, bankers acceptances of United States banks, obligations of the State of Michigan or any of its political subdivisions, mutual funds composed of investment vehicles that are legal for direct investment by a public corporation and investments in government pools.

The City maintains a common checking and investment pool for its operating funds. Each participating fund reports its share of common cash separately. The discretely presented component units participate in common cash as well. To the extent that some funds have negative balances in their share of common cash, such negative balances represent temporary interfund borrowings and, at June 30, have been recorded as interfund payables to funds with positive balances.



**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 3 - DEPOSITS AND INVESTMENTS (continued)**

At year end, the City's Deposits and Investments were reported in the basic financial statements as follows:

	Cash and Investments
Governmental Activities	\$ 2,247,362
Business-type Activities	541,475
Fiduciary and Trust and Agency Funds (Net Overdraft)	<u>(35,770)</u>
 Total Primary Government	 2,753,067
 Component Units	 <u>137,835</u>
 Total	 <u>\$ 2,890,902</u>

At year end, the carrying amount of the City's cash and investments was \$2,889,868 as follows:

	Primary Government	Fiduciary and Trust and Agency Funds	Component Units	Total Reporting Entity
Petty Cash / Cash on Hand	\$ 650	\$ -	\$ 100	750
Bank Deposits (CD, Checking and Savings)	2,404,402	(35,770)	137,735	2,506,367
Investment in Securities, Mutual Funds and similar vehicles	<u>383,785</u>	<u>-</u>	<u>-</u>	<u>383,785</u>
Grand Totals - Cash and Investments	<u>\$ 2,788,837</u>	<u>\$ (35,770)</u>	<u>\$ 137,835</u>	<u>\$ 2,890,902</u>

At year end, the carrying amount of the City's and its component units deposits with financial institutions was \$2,506,367 and the bank balance was \$2,532,594. Of the bank balance \$387,903 was covered by federal depository insurance and \$2,511,367 was uninsured and uncollateralized. Since the component units participate in the City's common cash the federal depository insurance is not specifically allocated to their balance.

Larger amounts of deposits with financial institutions were uninsured and uncollateralized during the year than at year end due to collections of property taxes being made over short periods of time.

The City believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates the bank rating of each financial institution it deposits City funds with. Only institutions with acceptable ratings are used as depositories.

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 3 - DEPOSITS AND INVESTMENTS (continued)**

Generally investments can be classified into three categories to give an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agency in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agency in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The exceptions to this classification requirement are investments in mutual funds that are not evidenced by securities that exist in physical or book entry form.

The City's investments held at year end are classified as follows:

	Category			Fair Value
	1	2	3	
Investment in MBIA Class Investment Pool	\$ -	\$ -	\$ -	\$ 383,785

The fair value of the investment in MBIA Class Investment Pool is the value of the pool shares. The pool is operated as an interlocal agreement between municipalities and MBIA. The pool investments are made in accordance with Public Act 196 and are governed by the board of directors of the pool which are appointed by the membership.

**NOTE 4 - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

The composition of interfund balances in the fund statements is as follows:

**Due To/From Primary Government**

<u>Receivable Entity</u>	<u>Payable Entity</u>	
Primary Government - General Fund	Component Unit - Airport	\$ 6,040
Primary Government - Equipment Rental Fund	Component Unit - Airport	12,055
Total		<u>\$ 18,095</u>

**Advance To/From Primary Government**

<u>Receivable Entity</u>	<u>Payable Entity</u>	
Primary Government - General Fund	Component Unit - Downtown Development Authority	\$ 45,000
Primary Government - Water Fund	Component Unit - Downtown Development Authority	314,867
Total		<u>\$ 359,867</u>



**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 4 - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS (continued)**

**Interfund Transfers Reported in the Fund Statements**

These transfers were done in the normal course of operations of the funds and the funding of jointly participated in capital projects.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	
General Fund	Nonmajor Governmental Funds	\$ 9,000
Equipment Rental Fund	General Fund	7,000
Sewer Fund	General Fund	18,000
Water Fund	General Fund	15,000
	Downtown Development Project Fund	<u>79,000</u>
	Total Water Fund	94,000
Nonmajor Governmental Funds	Downtown Development Project Fund	210,129
	Nonmajor Governmental Funds	<u>85,000</u>
	Total Nonmajor Governmental Funds	<u>295,129</u>
Total		<u>\$ 423,129</u>

**Transfers To/From Component Units Reported in the Fund Statements.**

<u>Transferred From</u>	<u>Transferred To</u>	
Component Unit - DDA	Primary Government - Water Fund	\$ 18,847
Primary Government - General Fund	Component Unit - Airport	<u>30,000</u>
Total		<u>\$ 48,847</u>

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

**A. Primary Government**

	Beginning Balance	Acquisitions	Sales & Dispositions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 400,700	\$ 5,000	\$ 15,975	\$ 389,725
Construction in Progress	45,343	218,063	45,343	218,063
Total capital assets, not being depreciated	446,043	223,063	61,318	607,788
Capital assets being depreciated:				
Land improvements	144,386	301,712	-	446,098
Buildings	660,512	-	-	660,512
Building improvements	59,849	-	-	59,849
Equipment and vehicles	1,017,052	70,178	42,870	1,044,360
Infrastructure	11,658,730	434,892	-	12,093,622
Total capital assets being depreciated	13,540,529	806,782	42,870	14,304,441
Less accumulated depreciation for:				
Land improvements	6,853	8,450	-	15,303
Buildings	323,962	20,361	-	344,323
Building improvements	13,352	5,985	-	19,337
Equipment and vehicles	546,509	76,942	27,594	595,857
Infrastructure	7,209,319	443,638	-	7,652,957
Total accumulated depreciation	8,099,995	555,376	27,594	8,627,777
Total capital assets, being depreciated, net	5,440,534	251,406	15,276	5,676,664
Governmental activities capital assets, net	\$ 5,886,577	\$ 474,469	\$ 76,594	\$ 6,284,452
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 33,200	\$ -	\$ -	\$ 33,200
Capital lease receivable, net of unearned lease income	2,385,080	-	-	2,385,080
Total capital assets, not being depreciated	2,418,280	-	-	2,418,280
Capital assets being depreciated:				
Land improvements	95,324	-	-	95,324
Buildings	903,049	-	-	903,049
Building improvements	-	-	-	-
Equipment and vehicles	258,664	24,680	-	283,344
Infrastructure	8,426,786	-	-	8,426,786
Total capital assets being depreciated	9,683,823	24,680	-	9,708,503

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 5 - CAPITAL ASSETS (continued)**

**A. Primary Government (continued)**

	Beginning Balance	Acquisitions	Sales & Dispositions	Ending Balance
<b>Business-type activities: (cont'd)</b>				
Less accumulated depreciation for:				
Land improvements	\$ 73,806	\$ 3,177	\$ -	\$ 76,983
Buildings	458,985	24,738	-	483,723
Building improvements	-	-	-	-
Equipment and vehicles	135,333	27,240	-	162,573
Infrastructure	5,156,291	226,131	-	5,382,422
Total accumulated depreciation	5,824,415	281,286	-	6,105,701
Total capital assets, being depreciated, net	3,859,408	(256,606)	-	3,602,802
Business-type activities capital assets, net	\$ 6,277,688	\$ (256,606)	\$ -	\$ 6,021,082

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General Government	\$ 12,746
Public Works	529,392
Recreation and Culture	13,238
Total depreciation expense-governmental activities	\$ 555,376
<b>Business-type activities:</b>	
Ice Arena	\$ -
Sewer	155,985
Water	125,301
Total depreciation expense-business-type activities	\$ 281,286

**B. Discretely presented component units**

Capital asset activity for the Airport for the year ended June 30, 2004, was as follows:

	Beginning Balance	Acquisitions	Sales & Dispositions	Ending Balance
<b>Capital assets, not being depreciated:</b>				
Land	\$ 57,000	\$ -	\$ -	\$ 57,000
Construction in Progress	590,708	326,796	413,337	504,167
Total capital assets, not being depreciated	647,708	326,796	413,337	561,167
<b>Capital assets being depreciated:</b>				
Land improvements	273,926	413,337	-	687,263
Equipment and vehicles	39,352	17,732	17,631	39,453
Total capital assets being depreciated	313,278	431,069	17,631	726,716



**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 5 - CAPITAL ASSETS (continued)**

**B. Discretely presented component units (continued)**

	Beginning Balance	Acquisitions	Sales & Dispositions	Ending Balance
Less accumulated depreciation for:				
Land improvements	\$ 6,167	\$ 9,131	\$ -	\$ 15,298
Equipment and vehicles	19,544	5,251	2,938	21,857
Total accumulated depreciation	25,711	14,382	2,938	37,155
Total capital assets, being depreciated, net	287,567	416,687	14,693	689,561
Airport capital assets, net	\$ 935,275	\$ 743,483	\$ 428,030	\$ 1,250,728

**NOTE 6 - LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond obligation activity of the Primary Government can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
<u>General Obligation Bonds</u>						
1996 Water/Sewer Improvement						
Amount of Issue \$1,525,000						
Maturing through 2020	5.7-6.0%	\$25,000 - 120,000	\$ 1,435,000	\$ (35,000)	\$ 1,400,000	\$ 35,000
Less Deferred Discounts			(16,341)	907	(15,434)	
2004 Sewer Improvement Bonds						
Amount of Issue \$1,250,000						
Maturing through 2050				1,250,000	1,250,000	-
2003 Truck Installment						
Amount of Issue \$150,000						
Maturing through 2009	4.25%	\$21,500	150,000	(21,500)	128,500	21,500
<b>Total Governmental Activities</b>			1,568,659	1,194,407	2,763,066	56,500

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 6 - LONG-TERM DEBT (continued)**

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type Activities</b>						
<u>General Obligation Bonds</u>						
1997 Water Supply and Sewage Amount of Issue \$450,000						
Maturing through 2013	4.3-5.4%	\$25,000 - \$40,000	\$ 325,000	\$ (25,000)	\$ 300,000	\$ 30,000
<u>Revenue Bonds</u>						
1999 Ice Arena Revenue Bonds Amount of Issue \$1,150,000						
Maturing through 2028	4.6-5.4%	\$30,000 - \$85,000	1,150,000	-	1,150,000	-
Less Deferred Discounts			(27,200)	1,046	(26,154)	
1976 Water Tower Bonds Capital Lease Amount of Issue \$340,000						
Maturing through 2015	5.00%	\$5,000 - \$15,000	171,000	(171,000)	-	-
<b>Total Business-type Activities</b>			<u>1,618,800</u>	<u>(194,954)</u>	<u>1,423,846</u>	<u>30,000</u>
<b>Total Primary Government</b>			<u>\$ 3,187,459</u>	<u>\$ 999,453</u>	<u>\$ 4,186,912</u>	<u>\$ 86,500</u>
<b>Component Units</b>						
Downtown Development Authority 1993 DDA GO Bonds Amount of Issue \$1,250,000						
Maturing through 2008	5.30%	\$25,000 - \$150,000	\$ 650,000	\$ (125,000)	\$ 525,000	\$125,000
Less Deferred Discounts			(10,000)	2,000	(8,000)	
1993 Note Payable Amount of Issue \$120,000						
Maturing through 2004	4.90%	\$12,000	12,000	(12,000)	-	-
<b>Total Component Units</b>			<u>\$ 652,000</u>	<u>\$ (135,000)</u>	<u>\$ 517,000</u>	<u>\$125,000</u>

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 6 - LONG-TERM DEBT (continued)**

**Debt Service Requirements**

Annual debt service requirements to maturity for the above obligations is as follows:

**Primary Government:**

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 55,592	\$ 131,896	\$ 28,954	\$ 45,132
2006	95,592	137,741	58,954	43,624
2007	110,592	133,524	58,954	41,412
2008	120,592	128,920	58,954	39,169
2009	120,592	123,049	58,954	36,897
2010-2014	631,460	523,624	329,770	144,762
2015-2019	890,460	323,623	224,770	101,856
2020-2024	643,186	91,184	299,770	66,919
2025-2028	95,000	2,423	304,766	21,499
Total	\$ 2,763,066	\$ 1,595,984	\$ 1,423,846	\$ 541,270

**Component Units:**

Year Ended June 30,	Principal	Interest
2005	\$ 123,000	\$ 30,163
2006	123,000	23,288
2007	123,000	16,163
2008	148,000	8,850
Total	\$ 517,000	\$ 78,464

**NOTE 7 - DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Unpaid utilities added to special assessments	\$ 2,421	\$ -
Grants Receivable	459,078	-
	\$ 461,499	\$ -



**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 8 - DESIGNATED FUND BALANCE**

The following is a summary of the unreserved fund balance of the governmental funds with management's designators.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Designated for:			
Emergency Disaster	\$ 5,000	\$ -	\$ 5,000
Future Building Expansion	62,835	-	62,835
Drug Enforcement	3,903	-	3,903
Future Cemetery Care and Maintenance	-	20,878	20,878
			-
Total Designated	<u>\$ 71,738</u>	<u>\$ 20,878</u>	<u>\$ 92,616</u>

**NOTE 9 - LEASE ACTIVITIES**

The City's leasing operations consist exclusively of leasing the public ice arena to the Gladwin Community Arena, a nonprofit corporation. This lease is classified as a direct financing lease which continues to November 2028.

The following lists the components of the net investment in direct financing leases as of June 30, 2004:

Total Minimum Lease Payments to be Received	\$ 2,162,762
Estimated Residual Value of Leased Property	<u>593,750</u>
	2,756,512
Less: Unearned Income	<u>(371,432)</u>
Total Net Investment in Lease	<u>\$ 2,385,080</u>

Minimum lease payments do not include amounts that may be received as stipulated in the lease contract for administration costs or operational expenses of the City incidental to the issuance and payment of bonds used to finance construction of the arena. These contingent rental payments occur only if costs are incurred by the City. At June 30, 2004, minimum lease payments for each of the five succeeding fiscal years are as follows:

<u>Year</u> <u>Ended</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 60,479
2006	60,479
2007	90,479
2008	89,099
2009	87,689



**CITY OF GLADWIN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 10 - RISK MANAGEMENT**

The City participates in a public entity risk (insurance) pool with other local units of government in the Michigan Municipal Liability and Property Pool. This self insurance plan provides members with loss protection for property damage and general liability.

The City made contributions of \$28,235 to the Plan for the year ended June 30, 2004.

When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are increased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The Plan does not maintain separate funds for members and consequently the City's share of Total Assets and Total Equity is unknown. Audited financial statements of the Plan are available.

**NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS**

**Defined Contribution Plans.**

The City has established various defined contribution pension plans under Section 401(a) of the Internal Revenue Service Code. The plans covers all full-time City employees (except the City Administrator and Police Chief or those covered by the MERS Plan) who have passed their twenty-first birthday and have been employed by the City for more than one year. For the fiscal year ended June 30, 2004, the City's current year covered payroll for such plans was \$504,250 and its total current-year payroll for all employees amounted to \$922,929. Cost to the City amounted to \$43,380 and contributions from covered employees amounted to \$15,120.

The City's policy is to fund accrued pension costs representing approximately 8% percent of the annual salaries of covered employees. Covered employees contribute an additional three percent of their salaries. Benefits accrue in each employee's individual account. These amounts are not available to the general creditors of the City, therefore, these assets are not reported in the City's financial statements.

The various plans and deviations from the above general policy are summarized as follows:

The City DPW Workers are covered under the Steelworkers Pension Program and through the ICMA Retirement Corporation. The City contributes 7% of gross wage to the Steelworkers Pension Program and 1% of gross wages to the ICMA-RC. Employees contribute 3% of gross wages to the ICMA-RC 401(a) Plan. Benefits accrue in each employee's individual account.

Beginning July 1, 1996 the City established a defined contribution pension for executive employees with ICMA Retirement Corporation, which currently only the City Administrator participates in. Under this plan executive employees are fully vested when admitted to the plan. The City has defined the annual contribution at 4% for covered employees and employees are not required to contribute any additional amount. Benefits accrue in each employee's individual account.



**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS (continued)**

Beginning in 1999, the City established a defined contribution pension for police administrative employees with the ICMA Retirement Corporation, which currently only the Police Chief participates in. Under this plan police administrative employees are fully vested when admitted to the plan. The City has defined the contribution rate of 10% of gross wages paid to covered employees and employees are not required to contribute any additional amount. Benefits accrue in each employee's individual account.

Beginning in 2002, the City established a defined contribution pension for existing employees not covered by other plans. The City contributes 8% of gross wages to the ICMA-RC. Employees contribute 3% of gross wages to plan. Benefits accrue in each employee's individual account.

**Agent Multiple-Employer Public Employee Retirement Plan**

Beginning in July 2002, the City opted to contribute to the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer public employee retirement system administered by the MERS Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at MERS, 1134 Municipal Way, Lansing, MI 48917. The employees included in this plan are the Police and Administrative Office personnel.

**Funding Policy** - Employees are required to make contributions to the System equal to 3% of their gross compensation. The City has responsibility for making actuarially determined contributions to the System.

**Annual Pension Cost** - For the year ended June 30, 2004 the City's annual pension cost of \$23,228 for the plan was equal to the City's required and actual contribution. The annual required contribution rate was determined as part of an actuarial valuation at September 1, 2002. Significant actuarial assumptions used in the valuation included (a) an assumed rate of investment return that is used to discount liabilities and project what plan assets will earn which was assumed to be 8%, (b) projected salary increases of 4.5% for inflation plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) the assumption that benefits will not increase after retirement.

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year was determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, are amortized as a level percent of payroll over a period of 30 years.

**Trend Information**

	12/31/03	09/01/02
Annual Pension Cost (APC)	\$ 21,148	\$ 21,684
Percentage of APC to Cover Payroll	8.1%	8.8%
Percentage of APC Contributed	100.0%	100.0%
Net Pension Obligation	\$ 166,814	\$ -
Actuarial Value of Assets	\$ 264,213	\$ -
Actuarial Accrued Liability	\$ 237,140	\$ 155,230
Unfunded (Overfunded) Actuarial Accrued Liability	\$ (27,073)	\$ 155,230
Funded Ratio	111.4%	0.0%
Covered Payroll	\$ 260,813	\$ 246,660
Unfunded Actuarial Accrued Liability	NA	62.9%

**CITY OF GLADWIN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 12 - JOINT VENTURE - FIRE BOARD**

The City is a member of the Gladwin Rural Urban Fire Protection District. The joint venture was established January 1, 1973 for the purpose of providing fire protection to its members of local governments: City of Gladwin and the Townships of Buckeye, Gladwin, Grout, Hay, Sherman, and Sage located in Gladwin County. The City and Townships each appoint two members to the joint venture's governing board, this board then determines and approves the annual budget.

The following is summary financial information for the Gladwin Rural Urban Fire Protection District as of December 31, 2003 (latest available audited financial statements).

	Account Groups			Totals
	Operating Fund	General Fixed Assets	General Long-Term Debt	
Total Assets	\$ 226,475	\$ 1,527,968	\$ 57,438	\$ 1,811,881
Less Total Liabilities	79,056	-	57,438	136,494
Total Equity and Other Credits	\$ 147,419	\$ 1,527,968	\$ -	\$ 1,675,387
Total Revenue and Other Financing Sources	\$ 254,940			
Total Expenditures	254,079			
Net Increase (Decrease) in Fund Equity	\$ 861			

The City's share of total assets and total equity is unknown. Audited Financial Statements of the Fire Board are available upon written request at City Hall.

**NOTE 13 - RELATED PARTY TRANSACTIONS**

The City has entered into various transactions with Alward Electric. A City Council person's immediate family has an ownership interest in this company. The transactions are for various services and amounts ranging from \$54 to up to \$3,820 individually and totaling \$16,108 for the year ended June 30, 2004.

A board member of the Downtown Development Authority - Component Unit is a Senior VP of Chemical Bank in which both the component unit and the City primary government do a substantial amount of banking transactions.

**NOTE 14 - CONTINGENCIES**

**Grants** - The City receives financial assistance from other governmental agencies in the form of grants. The disbursements of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City's General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any financial statements herein or on the overall position of the City.

**Litigation/Contract Disputes** - The City of Gladwin is subject to various legal proceedings arising in the course of providing public services to City residents. However, in the opinion of the City's attorney and management, the resolution of these matters will not have a material effect, if any, on the financial condition of the City.



**CITY OF GLADWIN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 14 - CONTINGENCIES (continued)**

Environmental Quality Compliance - The City and the Department of Environmental Quality (DEQ) have agreed that the City will take various actions to prevent further violations of the Natural Resources and Environmental Protection Act and correct existing non-compliance. The cost to take such actions is expected to be substantial and could have a significant impact on the financial condition of the City if outside funding, in the form of Federal and State grants, cannot be obtained.

**NOTE 15 - ACCOUNTING AND REPORTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments. The City has applied the provisions of this statement in the accompanying financial statements (including notes to financial statements). Certain significant changes in the statements include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc).

A change in the fund financial statements to focus on the major funds.

Capital assets in the governmental activities column of the statements of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling \$6,284,452 that would previously have been reported in the General Fixed Assets Account Group.

The governmental activities column includes bonds and other long-term obligations totaling \$2,763,066 previously reported in the General Long-term Debt Account Group.

# **REQUIRED SUPPLEMENTAL INFORMATION**



**CITY OF GLADWIN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2004**

**Exhibit A**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 732,500	\$ 726,900	\$ 727,152	\$ (252)
Licenses and Permits	42,000	39,500	28,477	11,023
Intergovernmental Revenue	395,734	523,900	463,067	60,833
Charges for Services	193,100	218,950	219,392	(442)
Fines and Forfeitures	20,700	29,550	30,778	(1,228)
Interest and Rentals	1,800	8,050	9,296	(1,246)
Other Revenue	49,000	125,700	137,495	(11,795)
<b>TOTAL REVENUE</b>	<b>1,434,834</b>	<b>1,672,550</b>	<b>1,615,657</b>	<b>56,893</b>
<b>EXPENDITURES</b>				
Legislative	54,450	62,225	63,121	(896)
General Government	497,420	488,395	443,630	44,765
Public Safety	528,695	572,400	557,818	14,582
Public Works	337,825	414,500	408,241	6,259
Health & Welfare	600	600	596	4
Recreation & Culture	125,480	303,980	330,619	(26,639)
<b>TOTAL EXPENDITURES</b>	<b>1,544,470</b>	<b>1,842,100</b>	<b>1,804,025</b>	<b>38,075</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(109,636)</b>	<b>(169,550)</b>	<b>(188,368)</b>	<b>18,818</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In				
Sewer Fund	18,000	18,000	18,000	-
Water Fund	15,000	15,000	15,000	-
Equipment Rental Fund	7,000	7,000	7,000	-
Transfers Out				
Art Council	(9,000)	(9,000)	(9,000)	-
Transfers to Component Units				
Airport	(30,000)	(30,000)	(30,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(108,636)</b>	<b>(168,550)</b>	<b>(187,368)</b>	<b>18,818</b>
<b>Fund Balance - Beginning</b>	<b>738,319</b>	<b>738,319</b>	<b>738,319</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 629,683</b>	<b>\$ 569,769</b>	<b>\$ 550,951</b>	<b>\$ 18,818</b>

# **OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION**

**CITY OF GLADWIN**  
**OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**

	Nonmajor Special Revenue Funds		
	Major Streets	Local Streets	City Streets
<b>ASSETS</b>			
Cash & Investments	\$ 244,899	\$ 90,560	\$ 9,083
Taxes Receivable	-	-	9,456
Accounts Receivable	-	-	-
Due from Other Governments	29,411	12,710	-
Due from Other Funds	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 274,310</b>	<b>\$ 103,270</b>	<b>\$ 18,539</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 57,057	\$ 7,151	\$ -
Accrued Liabilities	-	-	-
Due to Other Funds	-	-	-
Deferred Revenue	-	-	-
<b>TOTAL LIABILITIES</b>	<b>57,057</b>	<b>7,151</b>	<b>-</b>
<b>FUND BALANCE</b>			
Reserved	-	-	-
Unreserved	217,253	96,119	18,539
<b>TOTAL FUND BALANCE</b>	<b>217,253</b>	<b>96,119</b>	<b>18,539</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 274,310</b>	<b>\$ 103,270</b>	<b>\$ 18,539</b>

## Exhibit B

	Nonmajor Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
	County DPW Lease Debt	Cemetery Trust	
Arts Council			
\$ 5,784	\$ 103,589	\$ 97,930	\$ 551,845
-	9,192	-	18,648
-	-	-	-
-	-	-	42,121
-	-	-	-
<b>\$ 5,784</b>	<b>\$ 112,781</b>	<b>\$ 97,930</b>	<b>\$ 612,614</b>
\$ 547	\$ -	\$ -	\$ 64,755
-	-	-	-
-	-	-	-
-	-	-	-
<b>547</b>	<b>-</b>	<b>-</b>	<b>64,755</b>
-	112,781	77,052	189,833
5,237	-	20,878	358,026
<b>5,237</b>	<b>112,781</b>	<b>97,930</b>	<b>547,859</b>
<b>\$ 5,784</b>	<b>\$ 112,781</b>	<b>\$ 97,930</b>	<b>\$ 612,614</b>



**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Nonmajor Special</u>	
	<u>Major Streets</u>	<u>Local Streets</u>
<b>REVENUE</b>		
Taxes	\$ -	\$ -
Intergovernmental Revenue		
Gas & Weight Tax	173,266	74,786
Act 48 Maintenance Fees	10,684	-
Charges for Services	-	-
Interest and Dividends	910	683
Other Revenue	1,290	1,167
<b>TOTAL REVENUE</b>	<b>186,150</b>	<b>76,636</b>
<b>EXPENDITURES</b>		
<b>PUBLIC WORKS</b>		
Highways, Streets & Bridges		
Construction	47,588	74,357
Routine Maintenance	41,308	44,923
Traffic Services	8,026	3,806
Winter Maintenance	34,125	24,107
Street Cleaning	1,008	-
Administration	4,835	4,835
<b>RECREATION AND CULTURE</b>	-	-
<b>DEBT SERVICE</b>		
Principal	-	-
Interest & Fees	-	-
<b>TOTAL EXPENDITURES</b>	<b>136,890</b>	<b>152,028</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>49,260</b>	<b>(75,392)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating Transfers In		
From General Fund	-	-
From Major Streets	-	25,000
From City Streets	-	60,000
Operating Transfers Out		
To Local Streets	(25,000)	-
To Downtown Development Project	-	(83,314)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(25,000)</b>	<b>1,686</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>24,260</b>	<b>(73,706)</b>
<b>Fund Balance - Beginning</b>	<b>192,993</b>	<b>169,825</b>
<b>Fund Balance - Ending</b>	<b>\$ 217,253</b>	<b>\$ 96,119</b>

## Exhibit C

Revenue Funds		Nonmajor Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
City Streets	Arts Council	County DPW Lease Debt	Cemetery Trust	
\$ 90,942	\$ -	\$ 142,558	\$ -	\$ 233,500
-	-	-	-	248,052
-	-	-	-	10,684
-	12,551	-	7,600	20,151
575	37	503	2,160	4,868
500	203	-	-	3,160
<b>92,017</b>	<b>12,791</b>	<b>143,061</b>	<b>9,760</b>	<b>520,415</b>
-	-	-	-	121,945
-	-	-	-	86,231
-	-	-	-	11,832
-	-	-	-	58,232
-	-	-	-	1,008
-	-	-	-	9,670
-	19,804	-	-	19,804
-	-	35,000	-	35,000
-	-	83,017	-	83,017
-	<b>19,804</b>	<b>118,017</b>	-	<b>426,739</b>
<b>92,017</b>	<b>(7,013)</b>	<b>25,044</b>	<b>9,760</b>	<b>93,676</b>
-	9,000	-	-	9,000
-	-	-	-	25,000
-	-	-	-	60,000
(60,000)	-	-	-	(85,000)
(126,814)	-	-	-	(210,128)
<b>(186,814)</b>	<b>9,000</b>	-	-	<b>(201,128)</b>
<b>(94,797)</b>	<b>1,987</b>	<b>25,044</b>	<b>9,760</b>	<b>(107,452)</b>
<b>113,336</b>	<b>3,250</b>	<b>87,737</b>	<b>88,170</b>	<b>655,311</b>
<b>\$ 18,539</b>	<b>\$ 5,237</b>	<b>\$ 112,781</b>	<b>\$ 97,930</b>	<b>\$ 547,859</b>

**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
MAJOR STREETS FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2004**

**Exhibit D**

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Under (Over) Budget
<b>REVENUE</b>				
Intergovernmental Revenue				
Gas & Weight Tax	\$ 160,000	\$ 160,000	\$ 173,266	\$ (13,266)
Act 48 Maintenance Fees			10,684	(10,684)
Interest and Dividends	1,000	1,000	910	90
Other Revenue	<u>2,500</u>	<u>2,500</u>	<u>1,290</u>	<u>1,210</u>
<b>TOTAL REVENUE</b>	<b>163,500</b>	<b>163,500</b>	<b>186,150</b>	<b>(22,650)</b>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Highways, Streets & Bridges				
Construction			47,588	
Routine Maintenance			41,308	
Traffic Services			8,026	
Winter Maintenance			34,125	
Street Cleaning			1,008	
Administration			<u>4,835</u>	
<b>TOTAL EXPENDITURES</b>	<b><u>76,745</u></b>	<b><u>175,475</u></b>	<b><u>136,890</u></b>	<b><u>38,585</u></b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>86,755</b>	<b>(11,975)</b>	<b>49,260</b>	<b>(61,235)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers Out				
To Local Streets Fund	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>61,755</b>	<b>(36,975)</b>	<b>24,260</b>	<b>(61,235)</b>
<b>Fund Balance - Beginning</b>	<b><u>192,993</u></b>	<b><u>192,993</u></b>	<b><u>192,993</u></b>	<b><u>-</u></b>
<b>Fund Balance - Ending</b>	<b><u>\$ 254,748</u></b>	<b><u>\$ 156,018</u></b>	<b><u>\$ 217,253</u></b>	<b><u>\$ (61,235)</u></b>

**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
LOCAL STREET FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2004**

**Exhibit E**

	Budgeted Amounts			Variance with Final Budget - Under (Over) Budget
	Original	Final	Actual Amounts	
<b>REVENUE</b>				
Intergovernmental Revenue				
Gas & Weight Tax	\$ 70,000	\$ 70,000	\$ 74,786	\$ (4,786)
Interest and Dividends	800	800	683	117
Other Revenue	-	-	1,167	(1,167)
<b>TOTAL REVENUE</b>	<b>70,800</b>	<b>70,800</b>	<b>76,636</b>	<b>(5,836)</b>
<b>EXPENDITURES</b>				
<b>PUBLIC WORKS</b>				
Highways, Streets & Bridges				
Construction			74,357	
Routine Maintenance			44,923	
Traffic Services			3,806	
Winter Maintenance			24,107	
Street Cleaning			-	
Administration			4,835	
<b>TOTAL EXPENDITURES</b>	<b>77,455</b>	<b>210,880</b>	<b>152,028</b>	<b>58,852</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(6,655)</b>	<b>(140,080)</b>	<b>(75,392)</b>	<b>(64,688)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In				
From Major Streets			25,000	
From City Streets			60,000	
Operating Transfers Out				
To Downtown Development Project			(83,314)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>25,000</b>	<b>1,685</b>	<b>1,686</b>	<b>(1)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>18,345</b>	<b>(138,395)</b>	<b>(73,706)</b>	<b>(64,689)</b>
<b>Fund Balance - Beginning</b>	<b>169,825</b>	<b>169,825</b>	<b>169,825</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 188,170</b>	<b>\$ 31,430</b>	<b>\$ 96,119</b>	<b>\$ (64,689)</b>



**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
CITY STREETS FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2004**

**Exhibit F**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Under (Over) Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 91,600	\$ 91,600	\$ 90,591	\$ 1,009
Interest and Dividends	-	-	575	(575)
Other Revenue	-	-	851	(851)
<b>TOTAL REVENUE</b>	<b>91,600</b>	<b>91,600</b>	<b>92,017</b>	<b>(417)</b>
<b>EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>91,600</b>	<b>91,600</b>	<b>92,017</b>	<b>(417)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers Out				
To Local Streets			(60,000)	
To Downtown Development Project			(126,814)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(186,815)</b>	<b>(186,814)</b>	<b>(1)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>91,600</b>	<b>(95,215)</b>	<b>(94,797)</b>	<b>(418)</b>
<b>Fund Balance - Beginning</b>	<b>113,336</b>	<b>113,336</b>	<b>113,336</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 204,936</b>	<b>\$ 18,121</b>	<b>\$ 18,539</b>	<b>\$ (418)</b>

**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
ARTS COUNCIL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2004**

**Exhibit G**

	Budgeted Amounts			Variance with Final Budget - Under (Over)
	Original	Final	Actual Amounts	Budget
<b>REVENUE</b>				
Charges for Services	\$ 7,000	\$ 12,500	\$ 12,551	\$ (51)
Interest and Dividends	100	100	37	63
Other Revenue	500	500	203	297
<b>TOTAL REVENUE</b>	<b>7,600</b>	<b>13,100</b>	<b>12,791</b>	<b>309</b>
<b>EXPENDITURES</b>				
RECREATION & CULTURE				
Salaries & Fringes			5,600	
Supplies			2,068	
Other Services & Charges			12,136	
<b>TOTAL EXPENDITURES</b>	<b>17,650</b>	<b>23,150</b>	<b>19,804</b>	<b>3,346</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>(10,050)</b>	<b>(10,050)</b>	<b>(7,013)</b>	<b>(3,037)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In				
From General Fund	9,000	9,000	9,000	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,050)</b>	<b>(1,050)</b>	<b>1,987</b>	<b>(3,037)</b>
<b>Fund Balance - Beginning</b>	<b>3,250</b>	<b>3,250</b>	<b>3,250</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 2,200</b>	<b>\$ 2,200</b>	<b>\$ 5,237</b>	<b>\$ (3,037)</b>

# **CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**

**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
CAPITAL ASSETS USED IN THE OPERATION  
OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULES BY SOURCE  
JUNE 30, 2004 AND 2003**

**Exhibit H**

	<u>2004</u>	<u>2003</u>
<b>Governmental funds capital assets:</b>		
Land	\$ 389,725	\$ 400,700
Land Improvements	421,258	143,343
Buildings	601,470	601,470
Building Improvements	59,849	59,849
Equipment and vehicles	149,320	157,595
Infrastructure	12,093,621	11,658,729
Construction in progress	218,063	45,343
<b>Total governmental funds capital assets</b>	<b><u>\$ 13,933,306</u></b>	<b><u>\$ 13,067,029</u></b>
<b>Investments in governmental funds capital assets by source:</b>		
General Fund	\$ 4,259,130	\$ 3,813,777
Special Revenue Funds	9,530,470	9,207,909
Capital Projects	143,706	45,343
<b>Total governmental funds capital assets</b>	<b><u>\$ 13,933,306</u></b>	<b><u>\$ 13,067,029</u></b>



**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
CAPITAL ASSETS USED IN THE OPERATION  
OF GOVERNMENTAL FUNDS  
SCHEDULE BY FUNCTION AND ACTIVITY  
JUNE 30, 2004**

**Exhibit I**

	Land		Land Improvements		Buildings		Building Improvements		Equipment and Vehicles	Infrastructure	Construction in Progress	Total
<b>General Government:</b>												
City Council	\$ 64,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,200
Administration	44,025	-	-	-	135,000	10,510	29,643	-	-	-	-	219,178
Cemetery	32,500	-	-	-	37,984	-	-	-	-	-	-	70,484
<b>Public Safety:</b>												
Police	20,000	-	-	-	-	-	-	-	-	-	-	20,000
<b>Public Works:</b>												
Public Works	115,000	11,975	149,479	-	119,677	-	-	-	-	-	-	396,131
Sidewalks	-	131,368	-	-	980,434	-	-	-	-	-	-	1,111,802
<b>Highways and Streets:</b>												
Street System	-	-	-	-	11,113,187	218,063	-	-	-	-	-	11,331,250
<b>Recreation and Culture:</b>												
Parks	114,000	277,915	182,941	18,579	-	-	-	-	-	-	-	593,435
Community Center	-	-	96,066	30,760	-	-	-	-	-	-	-	126,826
	<b>\$ 389,725</b>	<b>\$ 421,258</b>	<b>\$ 601,470</b>	<b>\$ 59,849</b>	<b>\$ 149,320</b>	<b>\$ 12,093,621</b>	<b>\$ 218,063</b>	<b>\$ 13,933,306</b>				

**CITY OF GLADWIN  
OTHER FINANCIAL AND SUPPLEMENTAL INFORMATION  
CAPITAL ASSETS USED IN THE OPERATION  
OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2004**

**EXHIBIT J**

	<b>Governmental Funds Capital Assets</b>			<b>Governmental Funds Capital Assets</b>
	<b>July 1, 2003</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2004</b>
<b>General Government:</b>				
City Council	\$ 64,200	\$ -	\$ -	\$ 64,200
Administration	243,428	-	24,250	219,178
Cemetery	70,484	-	-	70,484
<b>Public Safety:</b>				
Police	20,000	-	-	20,000
<b>Public Works:</b>				
Public Works	396,131	-	-	396,131
Sidewalks	925,116	186,687	-	1,111,803
<b>Highways and Streets:</b>				
Street System	10,910,324	466,268	45,343	11,331,249
<b>Recreation and Culture:</b>				
Parks	310,520	282,915	-	593,435
Community Center	126,826	-	-	126,826
	<b>\$ 13,067,029</b>	<b>\$ 935,870</b>	<b>\$ 69,593</b>	<b>\$ 13,933,306</b>

# STATISTICAL SECTION

**CITY OF GLADWIN**  
**NET ASSETS BY COMPONENT**  
**JUNE 30, 2004**  
**(UNAUDITED)**

**Table 1**

**Governmental Activities**

Invested in Capital Assets, net of related debt	\$ 3,521,386
Restricted	1,222,638
Unrestricted	<u>1,423,670</u>
<b>Total Governmental Activities Net Assets</b>	<b><u>\$ 6,167,694</u></b>

**Business-type Activities**

Invested in Capital Assets, net of related debt	\$ 4,597,236
Restricted	90,479
Unrestricted	<u>769,257</u>
<b>Total Business-type Activities Net Assets</b>	<b><u>\$ 5,456,972</u></b>

**Total Governmental and Business-type Activities**

Invested in Capital Assets, net of related debt	\$ 8,118,622
Restricted	1,313,117
Unrestricted	<u>2,192,927</u>
<b>Total Net Assets</b>	<b><u>\$ 11,624,666</u></b>

Note: 2004 was the first year of implementation of GASB 34, this table is intended to show trend information in the future



**CITY OF GLADWIN**  
**CHANGES IN NET ASSETS**  
**JUNE 30, 2004**  
**(UNAUDITED)**

Table 2

**Expenses**

Governmental Activities:

General Government	\$ 538,162
Public Safety	553,452
Public Works	1,001,554
Health and Welfare	596
Recreation and Culture	161,370
Interest and Fees on Long-Term Debt	<u>90,372</u>

Total Governmental Activities Expenses 2,345,506

Business-Type Activities:

Ice Arena	63,765
Sewer	488,357
Water	<u>482,797</u>

Total Business-Type Activities Expenses 1,034,919

**Total Primary Government Expenses** \$ 3,380,425

**Program Revenues**

Governmental Activities:

Charges for Services:

General Government	\$ 93,932
Public Safety	77,824
Public Works	173,414
Health and Welfare	1,950
Recreation and Culture	65,414
Interest and Fees on Long-Term Debt	-
Operating Grants and Contributions	335,673
Capital Grants and Contributions	<u>574,445</u>

Total Governmental Activities Program Revenues 1,322,652

Business-Type Activities:

Charges for Services:

Ice Arena	60,479
Sewer	500,779
Water	388,536
Operating Grants and Contributions	-
Capital Grants and Contributions	<u>-</u>

Total Business-Type Activities Program Revenues 949,794

**Total Primary Government Program Revenues** \$ 2,272,446

**Net (Expense)/Revenue**

Governmental Activities	\$ (1,022,854)
Business-Type Activities	<u>(85,125)</u>

Total Primary Government Net Expense \$ (1,107,979)

**CITY OF GLADWIN  
CHANGES IN NET ASSETS  
JUNE 30, 2004**

Table 2 (Continued)

**General Revenues and Other Changes in Net Assets**

Governmental Activities:

Property Taxes	\$ 979,228
Revenue Sharing	347,306
Interest Earnings	11,515
Miscellaneous	27,081
Transfers	<u>49,000</u>

Total Governmental Activities	1,414,130
-------------------------------	-----------

Business-Type Activities:

Investment Earnings	2,665
Miscellaneous	162
Transfers	<u>(60,153)</u>

Total Business-Type Activities	<u>(57,326)</u>
--------------------------------	-----------------

Total Primary Government	<u>\$ 1,356,804</u>
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**Change in Net Assets**

Governmental Activities	\$ 391,276
Business-Type Activities	<u>(142,451)</u>

Total Primary Government	<u>\$ 248,825</u>
--------------------------	-------------------

Note: 2004 was the first year of implementation of GASB 34, this table is intended to show trend information in the future

**CITY OF GLADWIN**  
**FUND BALANCES, GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**  
**(UNAUDITED)**

Table 3

General Fund	
Reserved	\$ 54,571
Designated	71,738
Unreserved/Undesignated	<u>424,642</u>
Total General Fund	<u>\$ 550,951</u>
All Other Governmental Funds	
Reserved	\$ 189,833
Unreserved, Reported In:	
Special Revenue Funds	337,148
Capital Projects Funds	984,498
Permanent Funds	<u>20,878</u>
Total All Other Governmental Funds	<u>\$ 1,532,357</u>

Note: 2004 was the first year of implementation of GASB 34, this table is intended to show trend information in the future

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**  
**(UNAUDITED)**

Table 4

<b>Revenues</b>	
Taxes	\$ 960,652
Licenses and Permits	28,477
Intergovernmental Revenue	781,889
Charges for Services	239,543
Fines and Forfeitures	30,778
Interest and Rentals	14,476
Other Revenue	<u>140,655</u>
<b>Total Revenues</b>	<b>2,196,470</b>
<b>Expenditures</b>	
Legislative	63,121
General Government	443,630
Public Safety	557,818
Public Works	697,159
Health & Welfare	596
Recreation & Culture	350,423
Debt Service	118,017
Capital Projects	<u>615,038</u>
<b>Total Expenditures</b>	<b><u>2,845,802</u></b>
<b>Excess (Deficiency) of Revenue of Expenditures</b>	<b>(649,332)</b>
<b>Other Financing Sources (Uses)</b>	
Bond Proceeds	1,250,000
Transfers In	423,129
Transfers Out	(304,128)
Transfers to Component Units	<u>(30,000)</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>1,339,001</u></b>
<b>Net Change in Fund Balance</b>	<b><u>\$ 689,669</u></b>

Note: 2004 was the first year of implementation of GASB 34, this table is intended to show trend information in the future

**CITY OF GLADWIN  
PROPERTY TAX VALUATION RATES - LEVIES  
LAST TEN YEARS  
(UNAUDITED)**

**Table 5**

Tax Roll Year	Real Property				Personal Property				Total			
	+Homestead		Non-Homestead		+Homestead		Non-Homestead		+Homestead		Non-Homestead	
	Taxable Value	Estimated	Taxable Value	Actual Value	Taxable Value	Estimated	Taxable Value	Actual Value	Taxable Value	Estimated	Taxable Value	Actual Value
1994	\$ 12,584,900	\$ 25,169,800	\$ 13,849,500	\$ 27,699,000	\$ -	\$ -	\$ 6,508,330	\$ -	\$ 12,584,900	\$ 20,357,830	\$ 20,357,830	\$ 40,715,660
1995	13,893,378	27,786,756	13,644,438	27,288,876	-	-	6,831,807	-	13,893,378	20,476,245	20,476,245	40,952,490
1996	14,866,967	29,733,952	14,137,754	28,275,508	-	-	6,773,731	-	14,866,967	20,911,485	20,911,485	41,822,970
1997	15,793,789	31,587,578	15,301,356	30,602,712	-	-	7,501,382	-	15,793,789	22,802,738	22,802,738	45,605,476
1998	17,299,516	34,599,032	16,220,062	32,440,124	-	-	7,841,944	-	17,299,516	24,062,006	24,062,006	48,124,012
1999	18,465,609	36,931,218	16,649,301	33,298,602	-	-	6,455,811	-	18,465,609	23,105,112	23,105,112	46,210,224
2000	19,827,602	39,655,204	17,495,388	34,990,776	-	-	7,447,490	-	19,827,602	24,942,878	24,942,878	49,885,756
2001	21,482,546	42,965,092	19,004,986	38,009,972	-	-	7,108,406	-	21,482,546	26,113,392	26,113,392	52,226,784
2002	23,164,461	46,328,922	19,887,561	39,775,122	-	-	7,856,258	-	23,164,461	27,743,819	27,743,819	55,487,638
2003	24,161,894	48,323,788	21,460,992	42,921,984	-	-	7,517,830	-	24,161,894	28,978,822	28,978,822	57,957,644

Tax Rate (Mills)

Tax Levy

Tax Roll Year	City			City			**Fire			Total Tax Levy without Fire		
	Operations			City Debt			Assessment			Assessment		
	City	Operations	City Debt	City	City Debt	City Debt	Assessment	City Debt	Assessment	City	Operations	City Debt
1994	15.0000	\$ 494,141	\$ 32,943	\$ 494,141	\$ 32,943	\$ 32,943	\$ 26,434	\$ 494,141	\$ 522,084	\$ 494,141	\$ 522,084	\$ 522,084
1995	14.8776	489,276	32,887	489,276	32,887	32,887	27,086	489,276	522,163	489,276	522,163	522,163
1996	15.0000	550,856	110,172	550,856	110,172	110,172	31,402	550,856	661,028	550,856	661,028	661,028
1997	15.0000	592,680	118,535	592,680	118,535	118,535	35,532	592,680	711,215	592,680	711,215	711,215
1998	15.0000	621,260	124,251	621,260	124,251	124,251	38,457	621,260	745,511	621,260	745,511	745,511
1999	14.9220	621,149	124,879	621,149	124,879	124,879	35,160	621,149	746,028	621,149	746,028	746,028
2000	14.9220	669,763	134,650	669,763	134,650	134,650	37,351	669,763	804,413	669,763	804,413	804,413
2001	14.8414	706,383	142,783	706,383	142,783	142,783	40,488	706,383	849,166	706,383	849,166	849,166
2002	14.8414	755,543	153,578	755,543	153,578	153,578	43,047	755,543	909,121	755,543	909,121	909,121
2003	14.6736	779,758	162,051	779,758	162,051	162,051	45,924	779,758	941,809	779,758	941,809	941,809

\* Does not include Industrial or Commercial Facility Tax

\*\* Properties subject to the Fire Assessment make up a combined SEV of an area within the City and is not assessed based on Homestead or Non-Homestead, but by property location.

**CITY OF GLADWIN  
TAX BASE COMPOSITION  
BREAKDOWN OF 2003 TAXABLE VALUE  
VALUATION BY CLASS AND USE  
(2003 ASSESSMENT ROLL)  
(UNAUDITED)**

**Table 6**

<u>By Class</u>	<u>Taxable Value</u>	<u>Percent of Total</u>
Real Property	\$ 58,406,800	88.60%
Personal Property	7,517,830	11.40%
Total	<u>\$ 65,924,630</u>	<u>100.00%</u>

<u>By Use</u>		
Residential	\$ 35,824,400	54.34%
Personal	7,517,830	11.40%
Commercial	19,438,700	29.49%
Industrial	3,143,700	4.77%
Total	<u>\$ 65,924,630</u>	<u>100.00%</u>

Source: Gladwin County Equalization Department

**TOP TEN TAXPAYERS  
PER 2003 TAXABLE VALUE  
(UNAUDITED)**

**Table 7**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>Percent of Total Value</u>
Consumers Power Company	Utility	\$ 2,235,229	3.39%
Dura Automotive	Automotive	2,115,125	3.21%
Dennings, Devere and Carol	Commercial Development	1,482,242	2.25%
DeShano, Gary and Florence	Construction	1,347,384	2.04%
Oberloier Smith Properties	Manufacturing	849,684	1.29%
Pamida Seven LLC	Retail	796,401	1.21%
Graff Motor Sales	Auto Sales	528,678	0.80%
Bell Land Company	Residential/Commercial Development	486,718	0.74%
Oberloier Smith Properties	Manufacturing	494,509	0.75%
Michael Smith	Motel	461,000	0.70%
Total Ten Largest		10,796,970	16.38%
Other Taxpayers		<u>55,127,660</u>	<u>83.62%</u>
Total Taxable Value		<u>\$ 65,924,630</u>	<u>100.00%</u>



**CITY OF GLADWIN  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN YEARS  
(UNAUDITED)**

**Table 8**

Tax Roll Year	Fiscal Year Ended June 30,	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1994	1995	\$527,084	\$ 473,619	89.86%	\$ 52,069	\$ 525,688	99.74%	\$ 1,396	0.265%
1995	1996	522,163	477,312	91.41%	42,057	519,369	99.46%	2,794	0.535%
1996	1997	661,056	623,130	94.26%	37,638	660,768	99.96%	288	0.044%
1997	1998	711,215	670,282	94.24%	38,722	709,004	99.69%	2,211	0.311%
1998	1999	745,511	701,104	94.04%	43,378	744,482	99.86%	1,029	0.138%
1999	2000	747,603	693,983	92.83%	52,045	746,028	99.79%	1,575	0.211%
2000	2001	802,329	752,064	93.74%	49,323	801,387	99.88%	942	0.117%
2001	2002	848,746	759,542	89.49%	87,347	846,889	99.78%	1,857	0.219%
2002	2003	909,121	829,177	91.21%	73,043	902,220	99.24%	6,901	0.759%
2003	2004	941,809	880,980	93.54%	45,505	926,485	98.37%	15,324	1.627%

**PROPERTY TAX RATES  
(PER \$1,000 OF ASSESSED VALUE)  
LAST TEN YEARS  
(UNAUDITED)**

**Table 9**

Tax Roll Year	City of Gladwin				Intermediate School District / College	Schools	State Education Tax	County	Total
	General (City Operations)	Debt Service	Fire Assessment	Total					
1994	15.0000	1.0000	1.0000	17.0000	3.6400	21.0000 *	6.0000	9.1199	56.7599 *
						3.0000 **			38.7599 **
1995	14.8776	1.0000	1.0000	16.8776	3.6438	21.0000 *	6.0000	9.1199	56.6413 *
						3.0000 **			38.6413 **
1996	15.0000	3.0000	1.0000	19.0000	3.6438	21.0000 *	6.0000	9.1199	58.7637 *
						3.0000 **			40.7637 **
1997	15.0000	3.0000	1.0000	19.0000	3.6438	21.0000 *	6.0000	8.6340	58.2778 *
						3.0000 **			40.2778 **
1998	15.0000	3.0000	1.0000	19.0000	3.6303	20.9568 *	6.0000	10.2414	59.8285 *
						3.0000 **			41.8717 **
1999	14.9220	3.0000	1.0000	18.9220	3.5875	20.1870 *	6.0000	10.2862	58.9827 *
						2.2500 **			41.0457 **
2000	14.9220	3.0000	1.0000	18.9220	3.5614	20.2500 *	6.0000	10.1891	58.9225 *
						2.2500 **			40.9225 **
2001	14.8414	3.0000	1.0000	18.8414	3.5200	20.2500 *	6.0000	8.4819	57.0933 *
						2.2500 **			39.0933 **
2002	14.8414	3.0000	1.0000	18.8414	3.4759	19.4353 *	6.0000	9.1079	56.8605 *
						2.2500 **			39.6752 **
2003	14.6736	3.0000	1.0000	18.6736	2.1318	17.2475 *	5.0000	9.5126	54.8155 *
						2.2500 **			37.5680 **

\* Non-Homestead Properties

\*\* Homestead Properties

**CITY OF GLADWIN**  
**RATIO OF GENERAL BONDED DEBT TO TAXABLE VALUE**  
**AND BONDED DEBT SERVICE PER CAPITA**  
**LAST TEN YEARS**  
**(UNAUDITED)**

**Table 10**

Fiscal Year Ended June 30,	Estimated Population	Taxable Value	General Obligation Bonds	Less Available Debt Service Funds	Net Bonded Debt	Percent of Net Debt to SEV	Net Bonded Debt Per Capita
1994	2,682	\$ 30,495,833	\$ 1,570,000	\$ 78,734	\$ 1,491,266	4.89%	\$ 556
1995	2,719	32,942,730	1,505,000	96,731	1,408,269	4.27%	518
1996	2,719	35,095,102	2,970,000	68,054	2,901,946	8.27%	1,067
1997	2,719	37,639,354	2,885,000	59,470	2,825,530	7.51%	1,039
1998	2,719	43,519,947	3,245,000	66,371	3,178,629	7.30%	1,169
1999	2,719	46,344,444	3,105,000	62,144	3,042,856	6.57%	1,119
2000	2,719	46,724,400	2,960,000	67,203	2,892,797	6.19%	1,064
2001	3,001	51,301,004	2,790,000	75,637	2,714,363	5.29%	904
2002	3,001	57,680,091	2,615,000	89,400	2,525,600	4.38%	842
2003	3,001	61,729,240	2,410,000	87,737	2,322,263	3.76%	774
2004	3,001	65,924,630	3,475,000	115,441	3,359,559	5.10%	1,119

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL  
OBLIGATION BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES  
LAST TEN YEARS**  
**(UNAUDITED)**

**Table 11**

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	Total General Fund Expenditures	Ratio of Debt Service to General Fund Expenditures
1994	\$ 30,000	\$ 83,080	\$ 113,080	\$ 1,108,115	1 to 9.80
1995	35,000	79,101	114,101	1,148,674	1 to 10.07
1996	85,000	76,635	161,635	1,169,774	1 to 7.24
1997	90,000	75,275	165,275	1,074,787	1 to 6.50
1998	90,000	160,130	250,130	1,180,439	1 to 4.72
1999	115,000	155,365	270,365	1,239,298	1 to 4.58
2000	120,000	150,155	270,155	1,347,536	1 to 4.99
2001	145,000	188,757	333,757	1,453,390	1 to 4.35
2002	150,000	136,603	286,603	1,457,522	1 to 5.09
2003	205,000	146,363	351,363	1,636,495	1 to 4.66
2004	185,000	135,741	320,741	1,812,998	1 to 5.65

**CITY OF GLADWIN**  
**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**  
**JUNE 30, 2004**  
**(UNAUDITED)**

**Table 12**

<u>Governmental Unit</u>	<u>Bonds Outstanding</u>	<u>Balances On Hand</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>City's Share of Debt</u>
City of Gladwin					
Direct Debt General					
Obligation Bonds	\$ 3,475,000	\$ 116,583	\$ 3,358,417	100.00%	\$ 3,358,417
<u>Overlapping Debt</u>					
School District - Gladwin	1,270,000	820,378	449,622	4.54%	<u>20,413</u>
Total Direct and Overlapping Debt					<u>\$ 3,378,830</u>

**COMPUTATION OF LEGAL DEBT MARGIN**  
**FOR GENERAL OBLIGATION BONDS**  
**JUNE 30, 2004**  
**(UNAUDITED)**

**Table 13**

State Equalized Valuation	<u>\$ 65,924,630</u>
Debt Limit - 10% of State Equalized Value	\$ 6,592,463
<u>Amount of Debt Applicable to Limit</u>	
Total Bond Debt	\$3,475,000
Less: Assets Available for Debt Service	(116,583)
Less: Court Order Issues (Environmental)	<u>(2,650,000)</u>
Net General Obligation Debt Subject to Limitation	<u>708,417</u>
Legal Debt Margin	<u>\$ 5,884,046</u>

**CITY OF GLADWIN  
DIRECT DEBT ISSUE  
JUNE 30, 2004  
(UNAUDITED)**

**Table 14**

<u>Date</u>	<u>Purpose</u>	<u>Type</u>	<u>Original Amount</u>	<u>Interest Spread</u>	<u>Maturities</u>	<u>Principal Outstanding</u>
1993	Downtown Development	LTGO	\$ 1,250,000	4.00%-5.90%	05/01/96-08	\$ 650,000
1996	Water/Sewer System	GO	1,525,000	5.00%	09/01/00-20	1,435,000
1998	Water/Sewer System	GO	450,000	4.30%-5.40%	09/01/99-13	325,000
2004	Water/Sewer System	GO	1,250,000	2.50%-5.10%	11/01/05-11	1,250,000
						<u>\$ 3,660,000</u>

**CITY OF GLADWIN  
DIRECT DEBT ANNUAL MATURITY SCHEDULE  
JUNE 30, 2004  
(UNAUDITED)**

**Table 15**

For Year Ended June 30	1993 Downtown Development Bonds		Gladwin County Water Supply and Sewage Capital Lease		Water and Sewer Improvement Capital Lease		Sewer Improvement Capital Lease		Total Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$ 125,000	\$ 36,787	\$ 25,000	\$ 16,261	\$ 35,000	\$ 82,693	\$ -	\$ -	\$ 320,741
2005	125,000	30,162	30,000	14,892	35,000	80,698	-	-	315,752
2006	125,000	23,287	30,000	13,385	35,000	78,702	40,000	75,088	420,462
2007	125,000	16,163	30,000	11,863	50,000	76,280	40,000	82,024	431,330
2008	150,000	8,850	30,000	10,325	55,000	73,274	45,000	53,129	425,578
2009	-	-	30,000	8,772	55,000	70,111	45,000	51,565	260,448
2010	-	-	35,000	7,074	65,000	66,661	45,000	49,889	268,624
2011	-	-	35,000	5,228	65,000	62,923	50,000	48,010	266,161
2012	-	-	40,000	3,230	70,000	59,043	50,000	45,948	268,221
2013	-	-	40,000	1,080	70,000	55,017	55,000	43,715	264,812
2014	-	-	-	-	90,000	50,418	55,000	41,323	236,741
2015	-	-	-	-	100,000	44,955	60,000	38,763	243,718
2016	-	-	-	-	110,000	38,890	60,000	36,033	244,923
2017	-	-	-	-	120,000	32,190	65,000	33,125	250,315
2018	-	-	-	-	120,000	25,140	70,000	29,935	245,075
2019	-	-	-	-	120,000	18,000	70,000	26,593	234,593
2020	-	-	-	-	120,000	10,800	75,000	23,094	228,894
2021	-	-	-	-	120,000	3,600	75,000	19,438	218,038
2022	-	-	-	-	-	-	80,000	15,620	95,620
2023	-	-	-	-	-	-	85,000	11,515	96,515
2024	-	-	-	-	-	-	90,000	7,118	97,118
2025	-	-	-	-	-	-	95,000	2,423	97,423
	<u>\$ 650,000</u>	<u>\$ 115,249</u>	<u>\$ 325,000</u>	<u>\$ 92,110</u>	<u>\$ 1,435,000</u>	<u>\$ 929,395</u>	<u>\$ 1,250,000</u>	<u>\$ 734,348</u>	<u>\$ 5,531,102</u>



**CITY OF GLADWIN  
PROPERTY VALUATIONS  
LAST TEN YEARS  
(UNAUDITED)**

**Table 16**

Levy Year	State Equalized Valuation	IFT Valuation	CFT Valuation	DDA Capture	Total Equivalent Valuation	Taxable Value
1993	\$ 30,495,833	\$ 197,300	\$ 221,900	\$ -	\$30,915,033	\$ -
1994	32,942,730	1,762,240	227,100	-	34,932,070	-
1995	35,095,862	1,863,074	179,200	3,315,578	33,822,558	35,409,518
1996	37,639,354	1,734,660	155,660	3,477,679	36,051,995	35,778,452
1997	43,519,947	1,563,748	155,660	2,984,470	42,254,885	38,707,827
1998	46,344,444	111,300	-	3,345,663	43,110,081	41,417,172
1999	46,724,400	111,300	-	1,870,505	44,965,195	41,641,735
2000	51,301,004	-	-	2,364,099	48,936,905	44,884,777
2001	57,580,091	-	-	3,228,815	54,351,276	47,572,438
2002	61,729,240	-	-	3,523,832	58,205,408	51,179,077
2003	65,924,630	-	-	3,836,149	62,088,481	53,143,916

Source: City Assessor

**CITY OF GLADWIN  
PROPERTY VALUE AND CONSTRUCTION  
LAST TEN YEARS  
(UNAUDITED)**

**Table 17**

Fiscal Year	Property Value*				Commercial Construction		Residential Construction	
	Commercial	Residential	Industrial	Total	Number of		Number of	
					Units	Value*	Units	Value*
1994	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1995	\$ 186,590	\$ 309,658	\$ 32,440	\$ 528,688	15	\$ 535,000	37	\$ 826,500
1996	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1997	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1998	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1999	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2001	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

\* Amounts expressed in thousands

N/A = Not Available

**CITY OF GLADWIN  
DEMOGRAPHIC INFORMATION  
(UNAUDITED)**

**Table 18**

The population of the City in the last five censuses is as follows:

2000 U.S. Census	3,001
1990 U.S. Census	2,682
1980 U.S. Census	2,479
1970 U.S. Census	2,071
1960 U.S. Census	2,226

# **COMPLIANCE SECTION**

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**CITY OF GLADWIN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004**

<b>FEDERAL GRANTOR</b>		CFDA	Award Amount	(Receivable) Deferral 7/01/03	Prior Year Expense Memo	Current Year Expense	Current Year Receipts	Receivable (Deferral) 6/30/04	Revenue Recognized
<b>Pass-Through Grantor</b>									
Program Title									
Project Number/Description									
<b>US DEPARTMENT OF COMMERCE</b>									
Public Works Development Facilities									
Project No: 06-01-04559		11.300	\$ 639,000	\$ (354,680)	\$ 602,241	\$ 17,248	\$ 294,210	\$ 77,718	\$ 17,248
<b>US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>									
<b>Passed through Michigan Strategic Fund</b>									
Community Development Block Grant Program									
Grant No: MSC 201026-EDIG		14.228	230,350	(216,810)	216,810	2,359	219,169	-	2,359
Grant No: MSC 201083-EDIG		14.228	1,029,286	-	-	339,099	-	339,099	339,099
Total Community Development			1,259,636	(216,810)	216,810	341,458	219,169	339,099	341,458
<b>US DEPARTMENT OF JUSTICE</b>									
<b>Passed through Michigan State Police</b>									
2001UMWX0108 - MI26425		16.710	75,000	(12,860)	75,000	-	12,860	-	-
<b>US DEPARTMENT OF TRANSPORTATION</b>									
<b>Passed Through Michigan Department of Transportation</b>									
Airport Improvement Program (AIP)									
B-26-0037-703		20.106	-	-	289	293,736	293,736	-	293,736
<b>Passed Through Michigan Department of Transportation</b>									
Transportation Economic Development									
Contract No: 02-5341		20.205	355,000	57,727	255,012	99,988	-	42,261	99,988
TOTAL US DEPARTMENT OF TRANSPORTATION			355,000	57,727	255,301	393,724	293,736	42,261	393,724
<b>TOTAL ALL FEDERAL FUNDS</b>			<b>\$ 2,328,636</b>	<b>\$ (526,623)</b>	<b>\$ 1,149,352</b>	<b>\$ 752,430</b>	<b>\$ 819,974</b>	<b>\$ 459,078</b>	<b>\$ 752,430</b>



**CITY OF GLADWIN  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies used to prepare the Schedule of expenditures of Federal Awards conform to generally accepted accounting principles as applicable to governmental entities. Refer to the Notes to the Financial Statements for additional explanations.

Revenue and related receivables have been recognized for this schedule when earned and therefore may be different than that actually recorded in the City's Fund Financial Statements as the fund revenue recognition takes into account the current availability criteria.

The Schedule of Expenditures of Federal Awards has been arranged in such a manner so as to provide information on both actual cash received and the relevant revenue recognized. Accordingly, the effect of accruals of Accounts Receivable, Deferred Revenue, and Accounts Payable have been reported.



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COMPANY P C

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

December 1, 2004

City Council  
City of Gladwin  
Gladwin, Michigan

We have audited the basic financial statements of City of Gladwin as of and for the year ended June 30, 2004, and have issued our report thereon dated December 1, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Gladwin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 04-01. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter titled *Audit Communications and Report of Comments and Recommendations* dated December 1, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Gladwin's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve

City Council  
City of Gladwin  
Gladwin, Michigan

matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect City of Gladwin's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-02.

A material weakness is a condition in which the design operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-02 to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter titled *Audit Communications and Report of Comments and Recommendations* dated December 1, 2004.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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COMPANY P.C.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 1, 2004

City Council  
City of Gladwin  
Gladwin, Michigan

Compliance

We have audited the compliance of City of Gladwin with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. City of Gladwin's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of the laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Gladwin's Management. Our responsibility is to express an opinion of City of Gladwin's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Gladwin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Gladwin's compliance with those requirements.

In our opinion, City of Gladwin complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-03.

City Council  
City of Gladwin  
Gladwin, Michigan

#### Internal Control Over Compliance

The management of City of Gladwin is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contractors and grants applicable to federal programs. In planning and performing our audit, we considered City of Gladwin's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-02 and 04-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions listed above to be material weaknesses.

This report is intended for the information of management and various granting and pass-through agencies which provide assistance to the City of Gladwin and is not intended to be and should not be used by anyone other than these specified parties.

*Page, Olson & Company*



**CITY OF GLADWIN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2004**

**SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?     X     Yes            No

Reportable condition(s) identified that are not considered to be material weaknesses?            Yes     X     None Reported

Noncompliance material to financial statements noted?     X     Yes            No

**FEDERAL AWARDS**

Internal control over major programs:

Material weakness(es) identified?     X     Yes            No

Reportable condition(s) identified that are not considered to be material weaknesses?            Yes     X     None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?     X     Yes            No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.300	Public Works Development Facilities
20.106	Airport Improvement Program (AIP)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?            Yes     X     No

**CITY OF GLADWIN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2004**

**Finding #**

**CURRENT YEAR FINDINGS RELATING TO GENERAL PURPOSE FINANCIAL STATEMENTS**

04-01 FUND DEFICIT

Finding: At June 30, 2004 the City had accumulated a fund deficit in its Component Unit Downtown Development Authority - Operating Fund and in its Industrial Park Expansion Project Fund.

04-02 YEAR END FINANCIAL CLOSING PROCESS

Finding: The City failed to properly close and adjust its books in a timely manner. This resulted in numerous proposed audit adjustments to properly convert the City's accounting records to the appropriate application of generally accepted accounting principles. Some of these adjustments should be made throughout the year rather than waiting until year end as they compromise the integrity of interim internal reports.

**CURRENT YEAR FINDINGS RELATING TO FEDERAL AWARDS**

04-02 SEE ABOVE Could impact federal programs.

04-03 CLOSE OUT DOCUMENTS

Grant: EDA 06-01-04559 - US Department of Commerce

Finding: Final close out documents were not submitted within 90 days of what appears to be the project completion date as required by the grant contract. The City should submit such needed documentation as soon as possible to prevent funds being returned for non-compliance.

04-04 ACCOUNTING DEFICIENCIES

Grant: CDBG MSC 201083-EDIG - US Department of Housing and Urban Development - Passed through Michigan Strategic Fund

Finding: Project to date recaps at year end contained clerical errors. Additionally the general ledger accounts of this project have not been logically set-up to facilitate an efficient tracking of the project expenses in accordance with the grant budget breakdowns. Since the project was relatively new at this point the errors were not material and were easily identified, as the project progresses this will be more difficult to accomplish if the project recaps are not kept up-to-date and/or provisions are not made for additional tracking within the general ledger system to provide the needed controls to assist in maintaining compliance with this grant.

**CITY OF GLADWIN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2004**

**DISPOSITION OF PRIOR YEAR FINDINGS**

03-01      FUND DEFICIT

Finding:                      At June 30, 2003 the City had accumulated a fund deficit in its Component Unit Downtown Development Authority - Operating Fund.

Current Status:            The finding is repeated as finding 04-01 in the current year. The City has a deficit elimination plan that goes through the year ending 2011.



1000 West Cedar Ave. • Gladwin, Michigan 48624-1865  
Phone: (989) 426-9231 • FAX: (989) 426-6942

December 30, 2004

To Whom It May Concern:

The City offers the following to correct the auditor's findings and questioned costs as listed for June 30, 2004:

Finding      Corrective Action Planned

04-01      Fund Deficits

Attached is the resolution adopted by the City Council with the plan to resolve the listed fund deficits.

04-02      Year End Financial Closing Process

The long time City Administrator left at the fiscal year end, this disrupted daily functions as well as contributed to a disruption of the year-end processing that the Administrator in the past played some role in. Additionally the City implemented the new GASB 34 reporting format so much emphasis was placed on accumulating the data to convert fixed assets for that reporting. We believe these two circumstances to be key in our failure to close and adjust books timely, as such, absent these situations we fully intend that the daily regimen will return and this will not be an issue in the future.

04-03      Close Out Documents

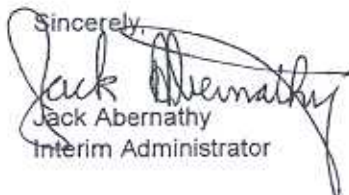
The City Administrator was responsible for monitoring all grant compliance issues. As mentioned above, he left at the fiscal year end. This non-filing would appear to be an oversight in the transition of finding an interim administrator. The new Interim Administrator has taken steps to find out the status of all grants and to get other City personnel involved in the monitoring process so that more than one person has knowledge of grant status. We believe this should correct any potential future deficiencies.

04-04      Accounting Deficiencies

The City Administrator was responsible for monitoring all grant compliance issues. As mentioned above, he left at the fiscal year end. The new Interim Administrator has taken steps to find out the status of all grants and to get other City personnel involved in the monitoring process so that more than one person has knowledge of grant status and accounting. New schemes for tracking are being implemented as suggested. We believe this should correct any potential future deficiencies.

We feel the above addresses and corrects the issues.

Sincerely,

  
Jack Abernathy  
Interim Administrator



1000 West Cedar Ave. • Gladwin, Michigan 48624-1865  
Phone: (989) 426-9231 • FAX: (989) 426-6942

**RESOLUTION  
DEFICIT ELIMINATION PLAN**

**WHEREAS**, the City of Gladwin ended fiscal year 2003-2004 with a deficit balance in its DDA Operating Fund and the Industrial Park Expansion Fund; and

**WHEREAS**, the City, in cooperation with the Michigan Department of Treasury in 1999, agreed to a ten (10) year time period in which the deficit in the Downtown Development Authority Operating Fund must be eliminated; and

**WHEREAS**, the City of Gladwin in accordance with Michigan Department of Treasury requirements is to file with the Department a projected budget to show the eventual elimination of any fund deficit, and

(See attached sheets)

**NOW THEREFORE BE IT RESOLVED**, the attached deficit elimination plans have been reviewed and are hereby adopted by the City Council as the City's official plan for elimination of the DDA Operating Fund deficit and the Industrial Park Expansion Project Fund deficit.

**BE IT FURTHER RESOLVED**, that the attached deficit elimination plans along with this resolution adopting said plans shall be filed with the Michigan Department of Treasury as soon as practicable.

The foregoing resolution was offered by Council Member Mienk and supported by Council Member Novak.

**Roll Call Vote:**

Ayes:	Alward, Caffrey, Crawford, Hindman, Jungman, Mienk, Novak, Smith
Nays:	None
Absent:	None
Abstain:	None

Resolution declared adopted this 20<sup>th</sup> day of December, 2004.

  
Shannon Greaves, City Clerk

**CERTIFICATE**

I, Shannon Greaves, Clerk of the City of Gladwin, do hereby certify the foregoing to be a true and correct copy of the resolution adopted by the Gladwin City Council at a regular meeting held December 20<sup>th</sup>, 2004 at 7:00 PM.

  
Shannon Greaves, City Clerk



City of Gladwin  
Debt Elimination Plan Update  
Gladwin Downtown Development Authority  
Operating Fund

	Actual 1996	Actual 1998	Actual 1999	Actual 1999	Actual 2000	Actual 2001	Actual 2002	Actual 2003	Actual 2004	Estimated 2005	Estimated 2006	Estimated 2007	Estimated 2008	Estimated 2009	Estimated 2010	Estimated 2011
<b>REVENUES</b>																
Taxes	127,866	144,815	160,875	209,118	203,369	110,102	137,452	179,602	233,995	314,608	324,353	334,084	344,106	375,895	394,400	414,204
State Revenues - TIFA Shortfall	-	-	-	-	-	32,534	42,206	-	-	-	-	-	-	-	-	-
Interest	7,898	1,284	1,405	1,188	2,306	4,407	3,522	5,423	760	271	750	750	750	750	750	750
Other Revenues	-	-	-	2,000	1,650	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>135,764</b>	<b>146,079</b>	<b>162,280</b>	<b>212,306</b>	<b>207,945</b>	<b>147,043</b>	<b>183,220</b>	<b>184,725</b>	<b>234,755</b>	<b>315,177</b>	<b>325,103</b>	<b>334,834</b>	<b>344,856</b>	<b>376,445</b>	<b>395,230</b>	<b>414,954</b>
<b>EXPENDITURES</b>																
Supplies	-	-	-	10,828	-	-	-	-	-	-	-	-	-	-	-	-
Contracted Services	45,000	45,000	-	4,750	1,213	2,261	-	-	-	-	-	-	-	-	-	-
Miscellaneous	20	642	29	3,733	-	-	-	-	28,770	-	-	-	-	-	-	-
Capital Outlay	-	-	-	26,765	-	-	-	-	-	-	-	-	-	-	-	-
Debt - Principal	14,000	14,000	14,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	-	-	-	-	-	-
Debt - Interest	9,497	9,127	10,820	4,269	3,515	2,927	2,344	1,782	1,186	586	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>68,517</b>	<b>68,769</b>	<b>34,349</b>	<b>64,342</b>	<b>16,728</b>	<b>17,179</b>	<b>14,344</b>	<b>13,783</b>	<b>41,936</b>	<b>12,588</b>	-	-	-	-	-	-
<b>OPERATING TRANSFERS (IN) OUT</b>																
Primary Government - General Fund	-	-	-	(6,282)	10,000	-	-	-	165,000	-	-	-	-	-	-	-
DOA Debt Service Fund	64,575	50,813	112,925	110,000	134,725	129,518	145,000	145,000	162,000	162,000	153,363	148,488	141,363	159,000	-	-
DOA Construction Fund	-	45,912	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CDRG Construction Fund	-	9,616	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Primary Government - Water/Wastewater	-	222,419	-	129,300	81,954	-	30,417	19,760	16,308	18,847	17,027	17,209	16,539	15,810	14,948	13,157
<b>TOTAL OPERATING TRANSFERS</b>	<b>64,575</b>	<b>334,779</b>	<b>112,925</b>	<b>231,006</b>	<b>226,679</b>	<b>129,518</b>	<b>175,417</b>	<b>164,768</b>	<b>184,308</b>	<b>180,847</b>	<b>171,290</b>	<b>165,757</b>	<b>157,902</b>	<b>174,860</b>	<b>14,948</b>	<b>13,157</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND TRANSFERS</b>	<b>2,672</b>	<b>(257,469)</b>	<b>24,406</b>	<b>(83,134)</b>	<b>(35,482)</b>	<b>347</b>	<b>(6,341)</b>	<b>5,195</b>	<b>8,511</b>	<b>121,742</b>	<b>153,813</b>	<b>169,077</b>	<b>188,954</b>	<b>180,319</b>	<b>381,145</b>	<b>401,797</b>
<b>FUND BALANCE - JULY 1</b>	<b>(53,269)</b>	<b>(53,269)</b>	<b>(308,068)</b>	<b>(276,615)</b>	<b>(358,749)</b>	<b>(306,211)</b>	<b>(364,864)</b>	<b>(401,405)</b>	<b>(395,210)</b>	<b>(386,099)</b>	<b>(284,957)</b>	<b>(111,144)</b>	<b>57,933</b>	<b>244,887</b>	<b>788,704</b>	<b>1,367,849</b>
<b>RESIDUAL EQUITY TRANSFER</b>																
<b>FUND BALANCE - JUNE 30</b>	<b>(50,597)</b>	<b>(308,068)</b>	<b>(276,615)</b>	<b>(358,749)</b>	<b>(395,211)</b>	<b>(384,864)</b>	<b>(401,405)</b>	<b>(395,210)</b>	<b>(386,699)</b>	<b>(264,357)</b>	<b>(111,144)</b>	<b>57,933</b>	<b>244,887</b>	<b>425,207</b>	<b>1,167,849</b>	<b>1,569,646</b>

Note 1: Tax revenues reflect closing of Simpson Industries, Inc.  
 Note 2: Tax revenues reflect Wicket Corporation locating in former Simpson Industries, Inc. building.  
 Note 3: Tax revenues projected based upon a 2% growth rate over previous year and for each subsequent year, except 2008-2011.  
 Note 4: Gladwin Renaissance Zone expires and 51,000 square foot addition plus personal property will be captured.  
 Note 5: 2008 is the reflects final payment on DOA bonds. DOA will not end until 2013 in accordance with the current ODA plan as adopted of Treasury has indicated the DOA plan must be amended to extend the DOA to 2020 to capture these additional sums due.  
 Note 6: Miscellaneous expenditures in 2003 are resulting from State Audit of DOA funds. Reimbursement of SET to the State and to the Fire Department for capture of ad valorem Special Assessment.

**CITY OF GLADWIN  
DEFICIT REDUCTION PLAN  
INDUSTRIAL PARK EXPANSION PROJECT FUND**

	ACTUAL 2004	ESTIMATED 2005
<b>REVENUES</b>		
FEDERAL GRANTS - EDA	-	77,718
STATE GRANTS - CDBG	2,359	
STATE GRANTS - TEDF	57,727	42,261
INTEREST EARNINGS	312	
OTHER FINANCING SOURCES		21,000
<b>TOTAL REVENUES</b>	<b>60,398</b>	<b>140,979</b>
<b>EXPENDITURES</b>		
ADMINISTRATION	6,877	-
STREET CONSTRUCTION	168,388	-
SANITARY SEWER	25,352	-
<b>TOTAL EXPENDITURES</b>	<b>200,617</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXP AND OTHER FINANCING SOURCES</b>	<b>(140,219)</b>	<b>140,979</b>
<b>FUND BALANCE - JULY 1</b>	<b>9</b>	<b>(140,210)</b>
<b>FUND BALANCE - June 30</b>	<b>(140,210)</b>	<b>769</b>

Note: The deficit is the result of GASB 33 revenue recognition of Grant revenue. We were not able to recognize the revenue even though it was earned, as it would not be available within a reasonable period of time from year end since the paper work requesting funds was not filed. This deficit will be corrected with the receipt of the grant fund in the 2004-2005 year.



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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

December 1, 2004

City Council  
City of Gladwin  
Gladwin, Michigan

We have recently completed our audit of the financial statements of the City of Gladwin for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

We conducted our audit of the financial statements of the City of Gladwin in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help to assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements. Other information related to the implementation of GASB 34 is discussed further in the other communications section.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit. We have the following to report to you at this time:

The following are the issues noted per the above referenced topics:

The City elected to do a full implementation of the GASB 34 reporting format. Therefore the Management's Discussion and Analysis, government-wide statements, and budgetary comparison schedules for each major fund have been included in the financial statements. Furthermore, the City's capital assets and long-term debt are reported in the Statement of Net Assets.

We discussed at length with the Audit Committee the various circumstances which led to the delay in issuance of the Comprehensive Annual Financial Report.

**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY**

In planning and performing our audit of the financial statements of the City of Gladwin, for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

**Reportable Conditions (Material Weaknesses)**

Material reportable conditions are stated in the Schedule of Findings and Questioned Costs in the Compliance Section of the Annual Comprehensive Financial Report on pages 99-101.

**Other Reportable Conditions**

The following matters were discussed in more detail with Audit/Finance Committee:

Credit Card Policy

The City should consider evaluating its policy on Credit Card use to consider enhanced internal controls that may be possible as well as the need to stress to staff the importance of solid documentation of transactions.

Beginning Balances

During the audit we noted that system balances brought forward on the City's internal accounting software were out of balance. Inquiry to the software vendor appears to have rectified this situation. City staff should specifically check this issue this year to make sure any problems are noted and corrected as soon as possible. This raises integrity issues with the system. A complete understanding of expected results should be emphasized when using the system in order to pin point problems and correct them immediately so as not to compromise the internal data of the City and its accounting system.



**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY (Continued)**

**Other Reportable Conditions (Continued)**

Purchase Order Policy

The City should consider evaluating its policy regarding purchase order use to provide consistent application of its use and to strengthen internal controls. Additionally, the City should consider the need to amend outdated written policies that are no longer followed.

Receipt Documentation

The City should consider evaluating its procedures and filing of receipt documentation as documentation is not consistently maintained and/or filed making retrieval of supporting data inefficient and sometimes non-existent.

Minutes

Official Minutes and records of Council meetings and other Committee meetings are not being kept up to date and consistently filed. Since these documents provide approval of action and historical data, it is very important that these records be maintained appropriately, that documents be attached or systematically filed for retrieval, and that gaps where meetings were supposed to occur be documented as to why they may have not occurred.

Park Receipts

The City should consider changing procedures in the Park's collection process to include a reconciliation of permit listing to deposits, more secure controls over the supply of permits, and to provide for a more complete accounting of miscellaneous sale and service items (i.e. ice, firewood, dumping fees).

Unallowable Expenditures

Various refreshment purchases were noted during the audit. Coffee, donuts, etc for employees use during normal working hours is considered personal, not for a public purpose, and improper unless specifically provided for in a collective bargaining agreement or duly adopted employment policy of the governmental unit. Additionally retirement recognition type expenses are unallowable as well.

Segregation of Duties

Various instances where segregation of duties may not meet the most desired scenario were noted. While we understand that staffing requirements and cost benefit analysis to achieve a text book segregation of duties is probably not justified, it is important to point out that some weaknesses exist and thus the potential for error and misappropriation exists. It is important for management and the City Council to be aware of this and to act accordingly when reviewing and scrutinizing any transactions and to realize the importance of constant ongoing monitoring.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the City's financial statements, dated December 1, 2004.

City Council  
City of Gladwin  
Gladwin, Michigan

SUMMARY

We would like to thank the City of Gladwin personnel and officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the City Council, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

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